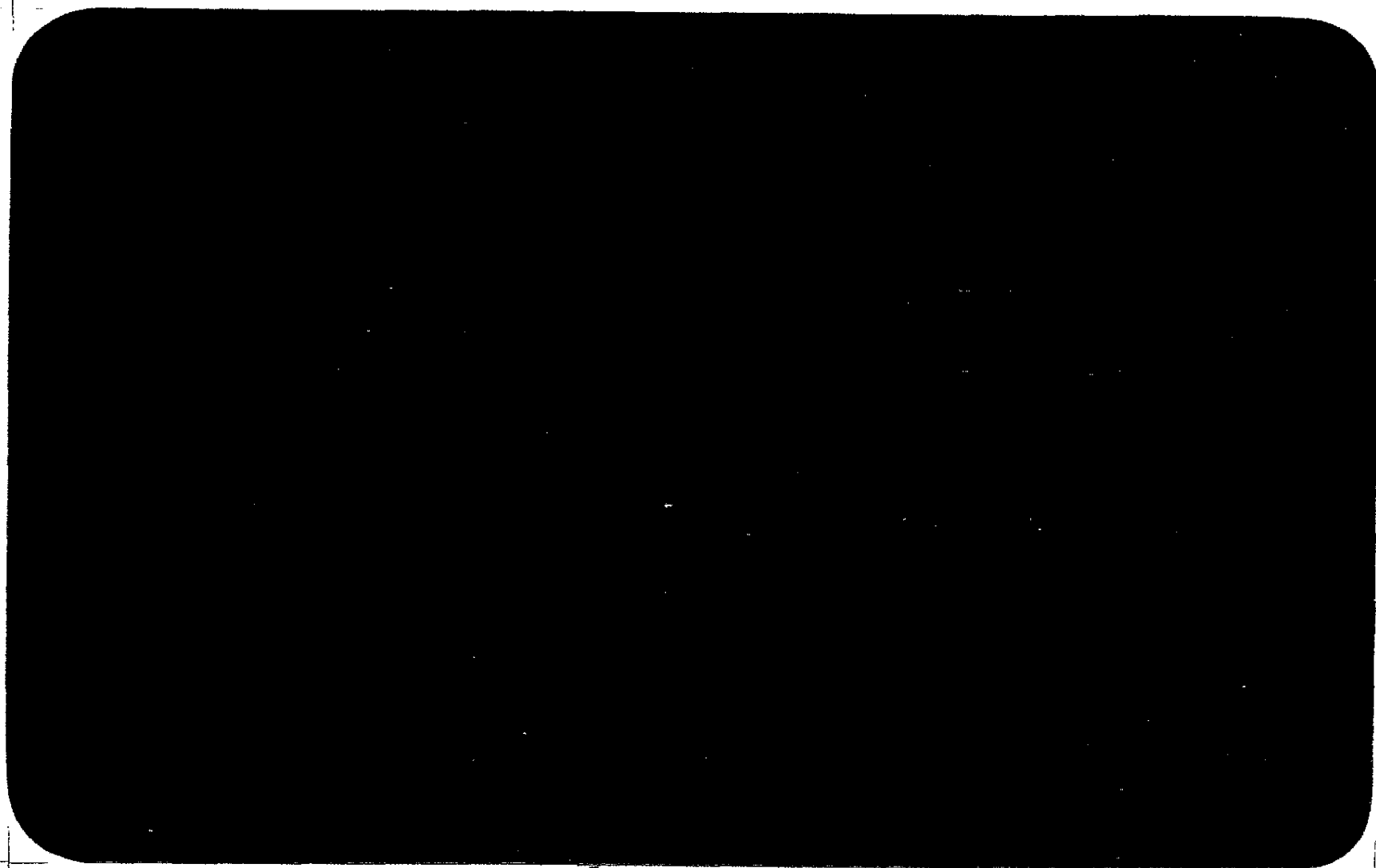
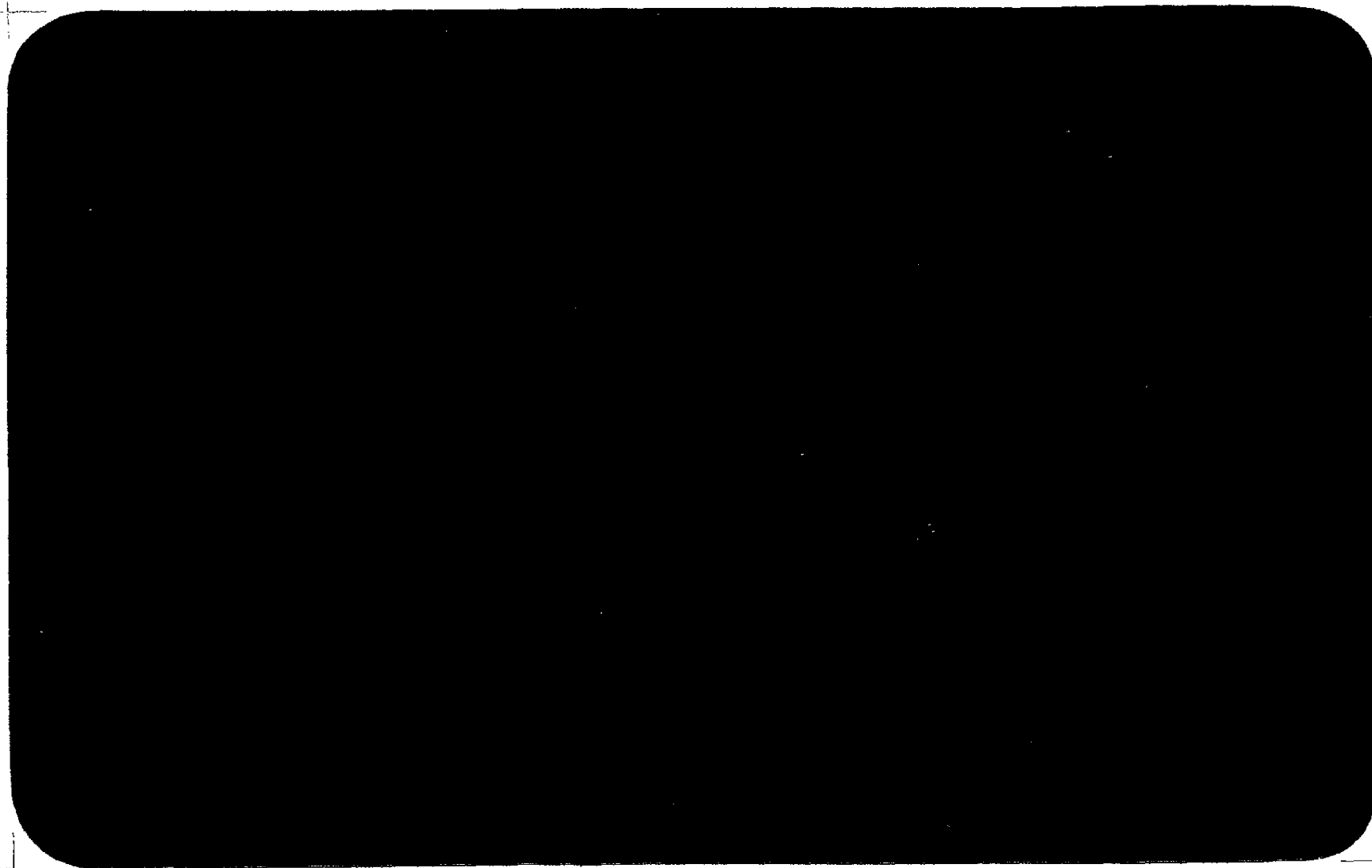


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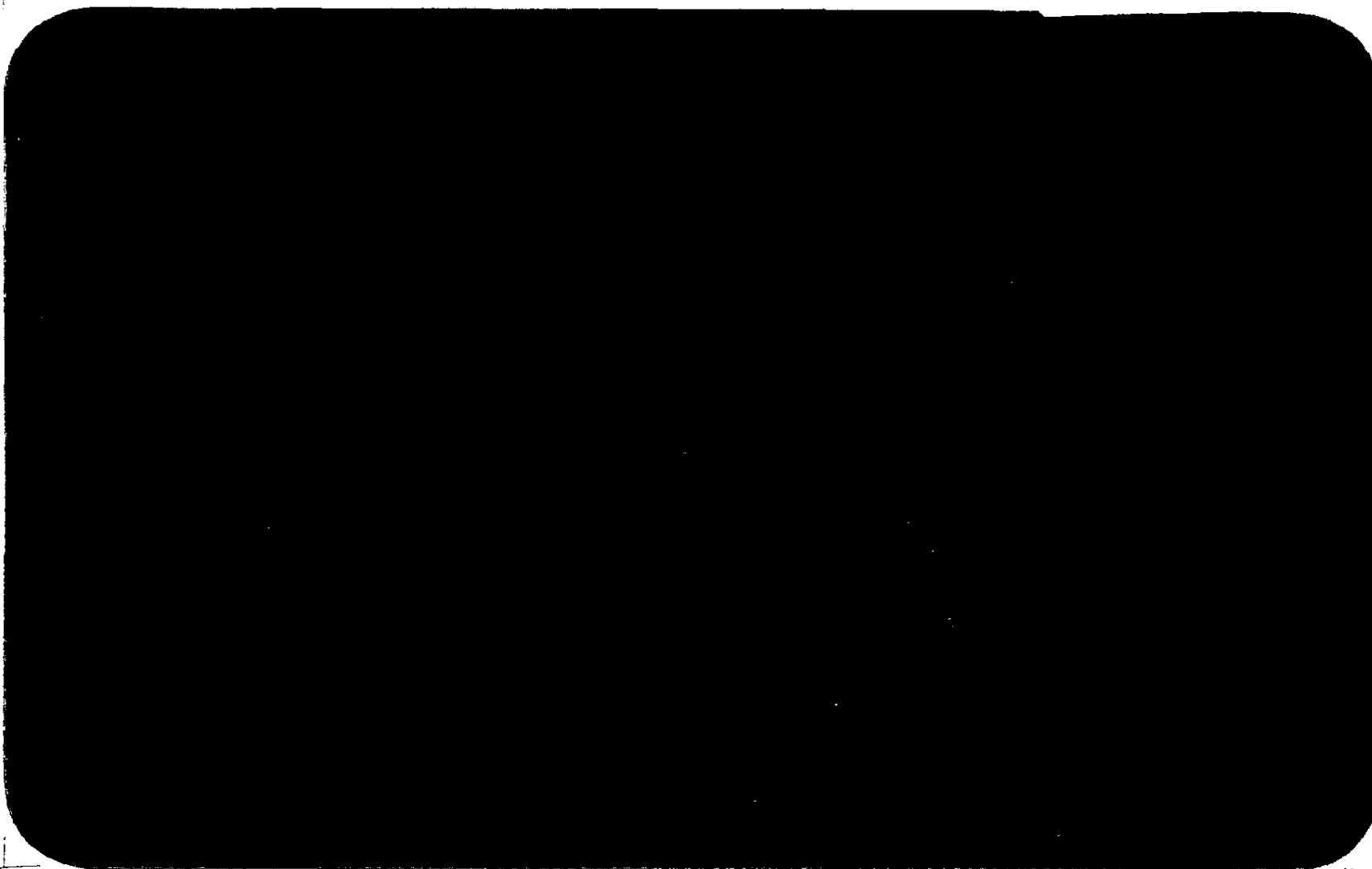


1992-1996

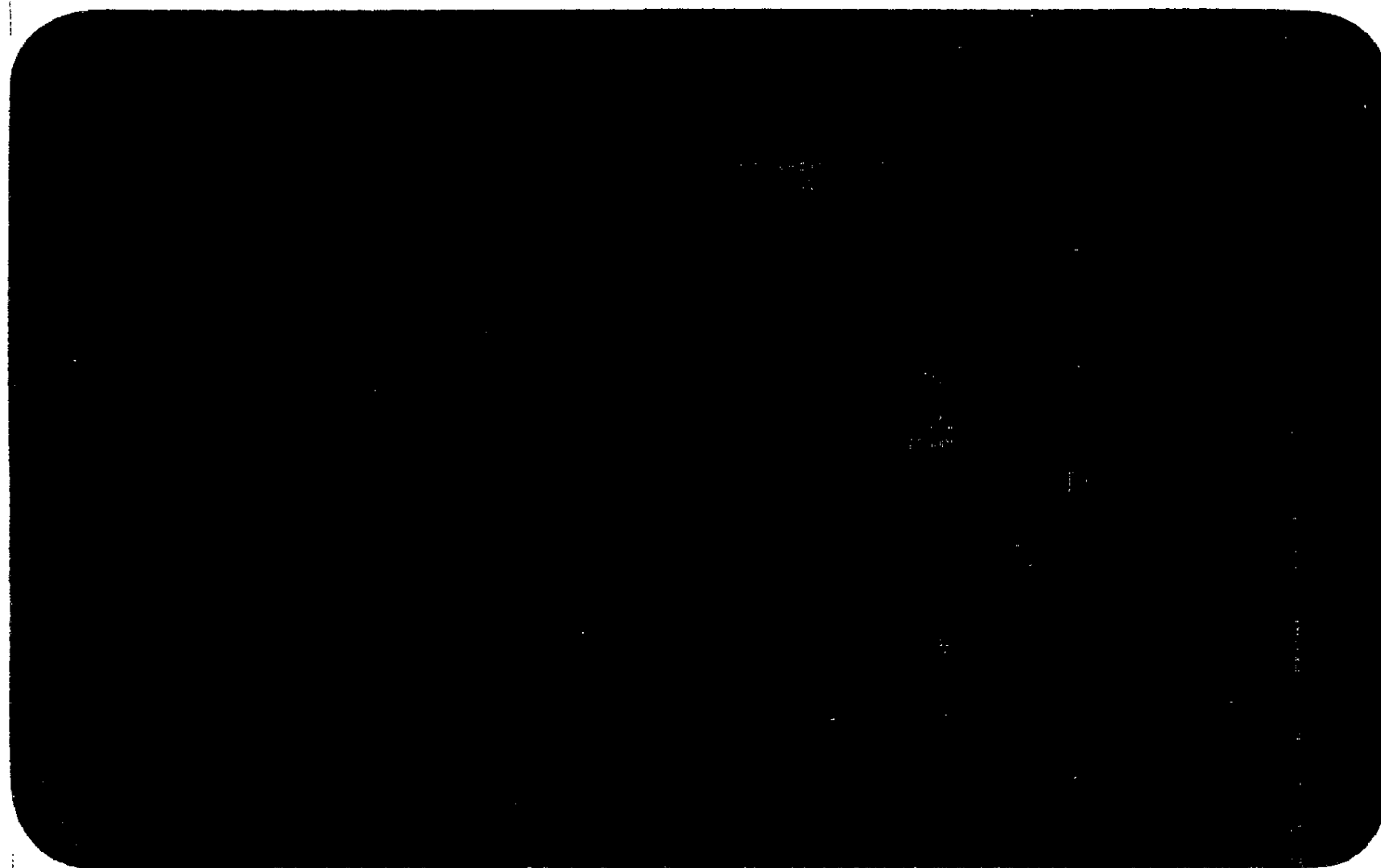
Business Objectives
1991 Review
Situation Analysis
Strategic Plan
Risks to Plan

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PM USA

Achieve Share Targets

	1991	<u>1996</u>	<u>Change</u>
Total PM-USA Share of Premium Category	47.9%	59.0%	11.1
Total Marlboro Brand Share	25.8%	28.9%	3.1
Total PM-USA Share of Discount Category	29.5%	33.1%	3.6
Discount Share of PM-USA	17.0%	24.1%	7.1

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1991 Strategic Goals

- Maximize Premium Trademarks
- Reverse Practice of increasing Premium Pricing to Offset Volume Decline
- Improve Discount Profitability

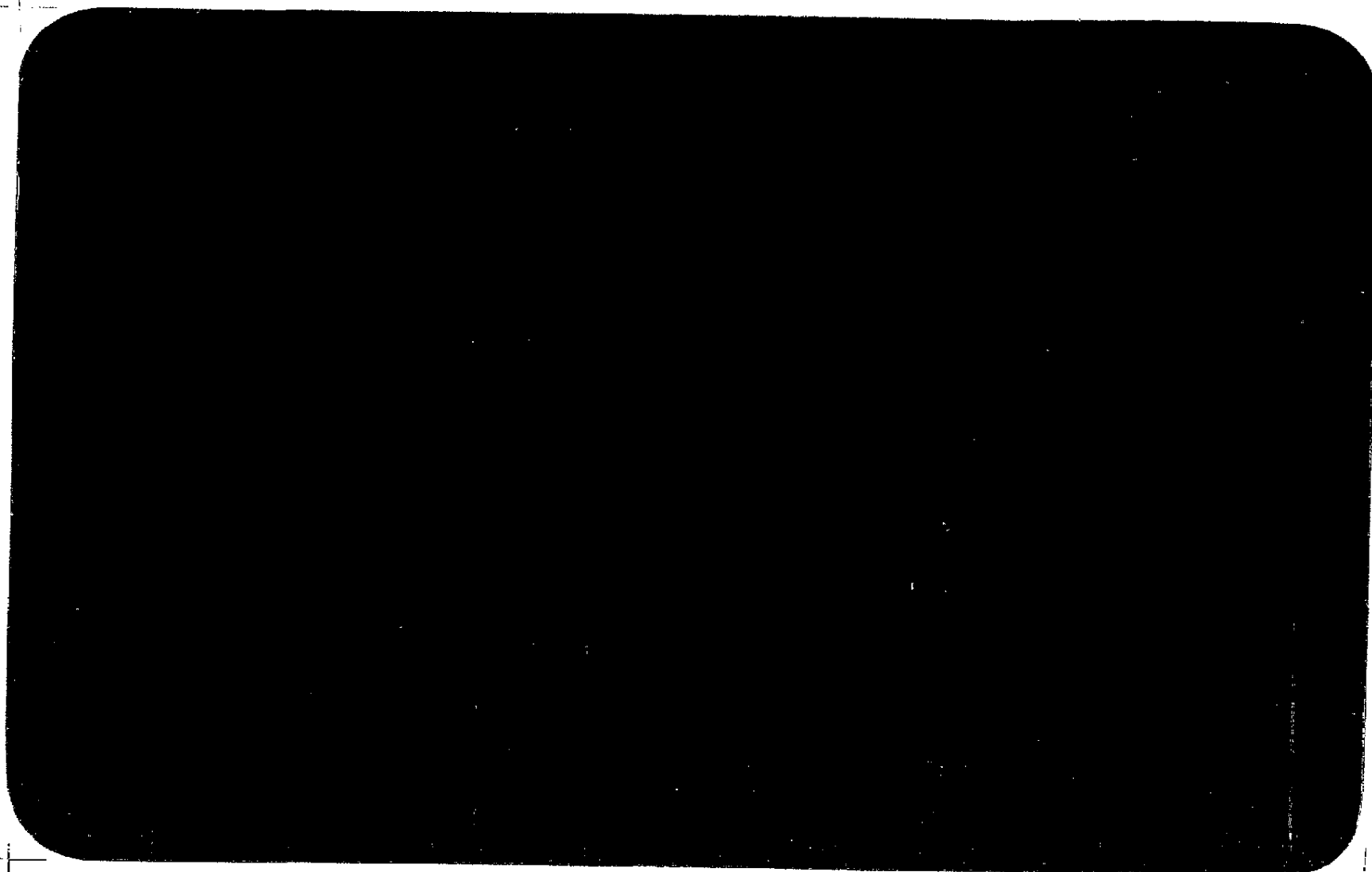
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Actions Taken to Date

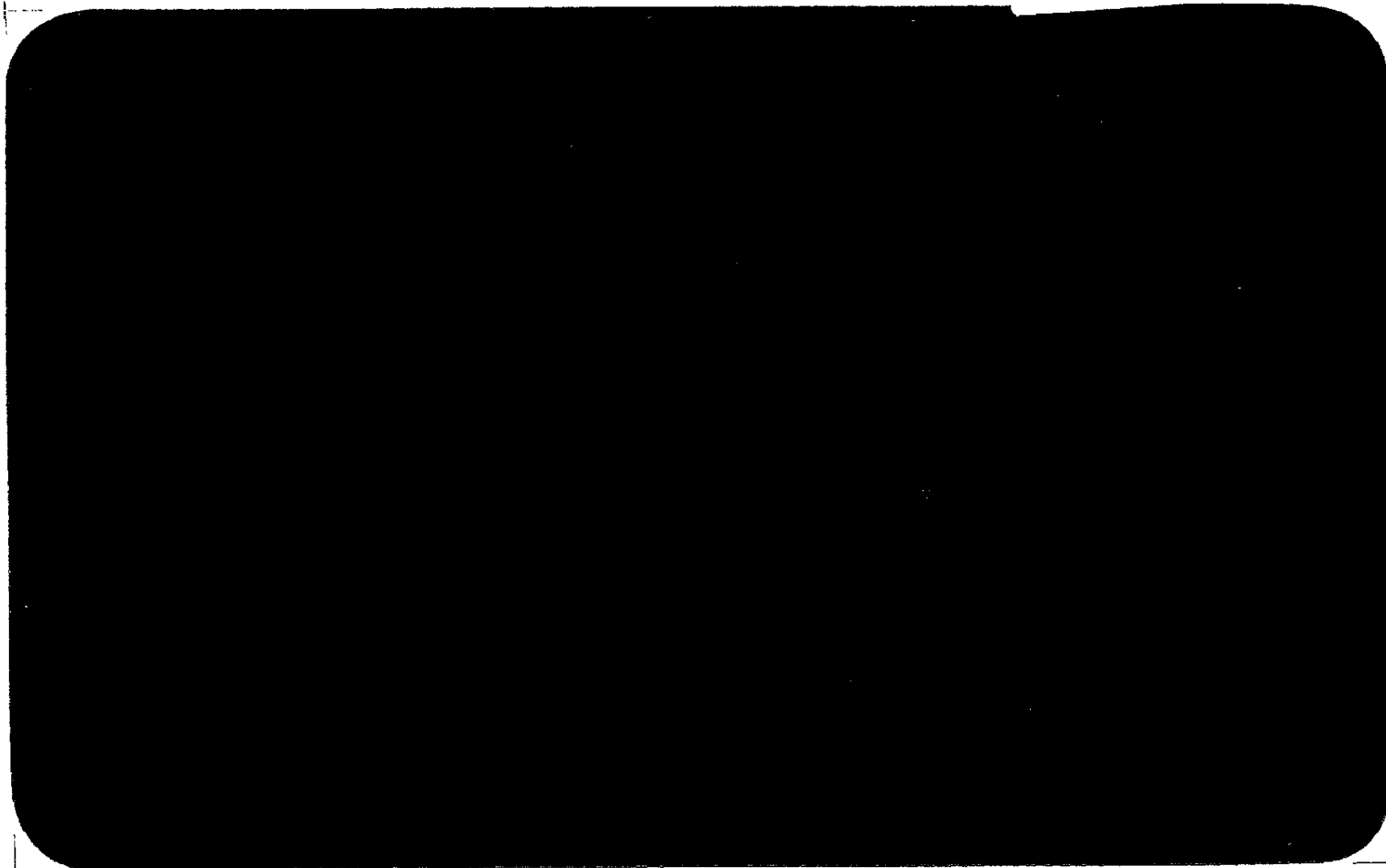
- Accelerated Retail Promotions
- Launched Marlboro Medium
- Executed Niche Strategy
 - Bristol Lowest
 - Cambridge Lowest
 - Commander
 - Merit Ultra
- Prepared B&H Kings
- Implemented Differential Pricing

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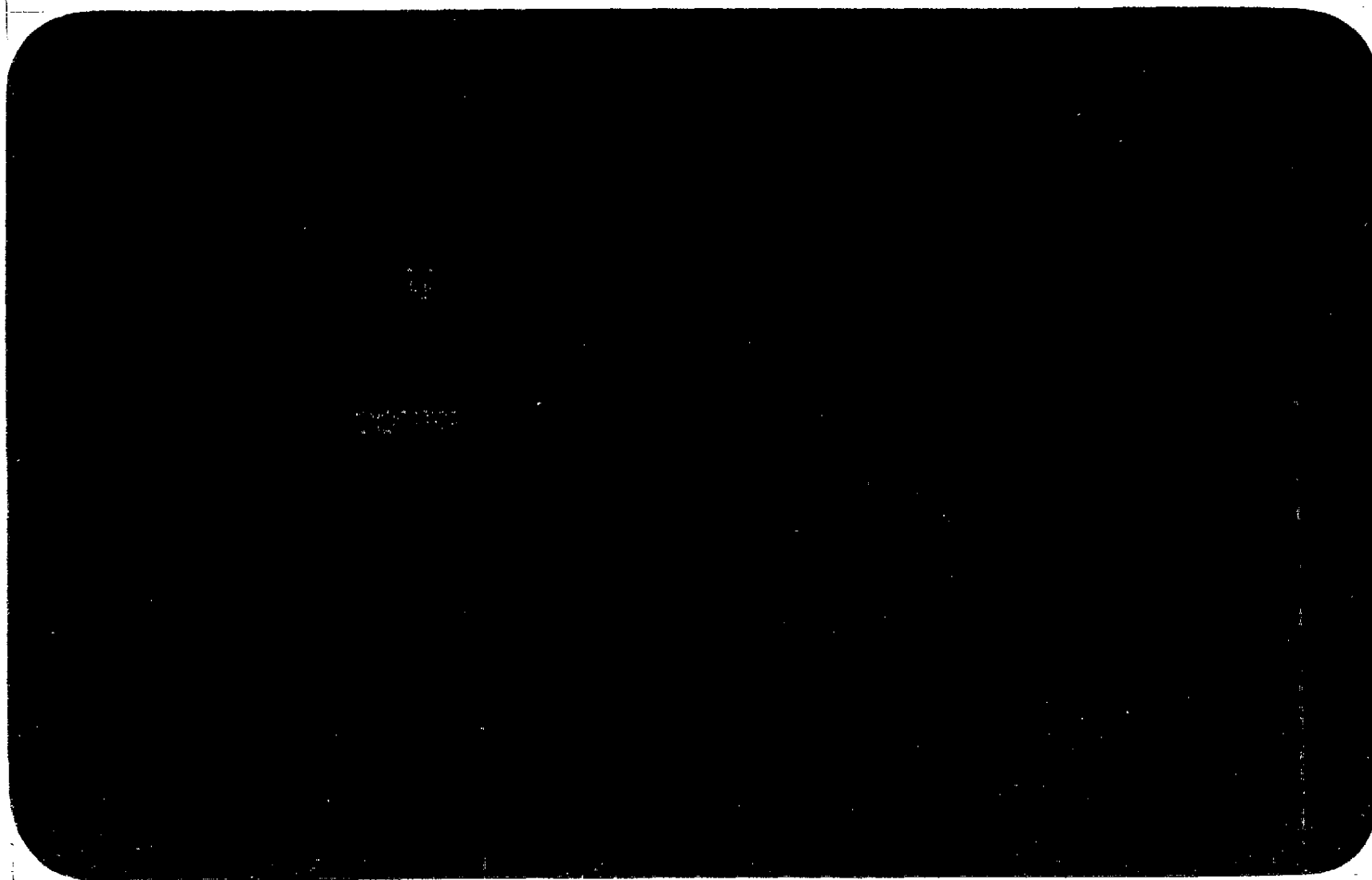


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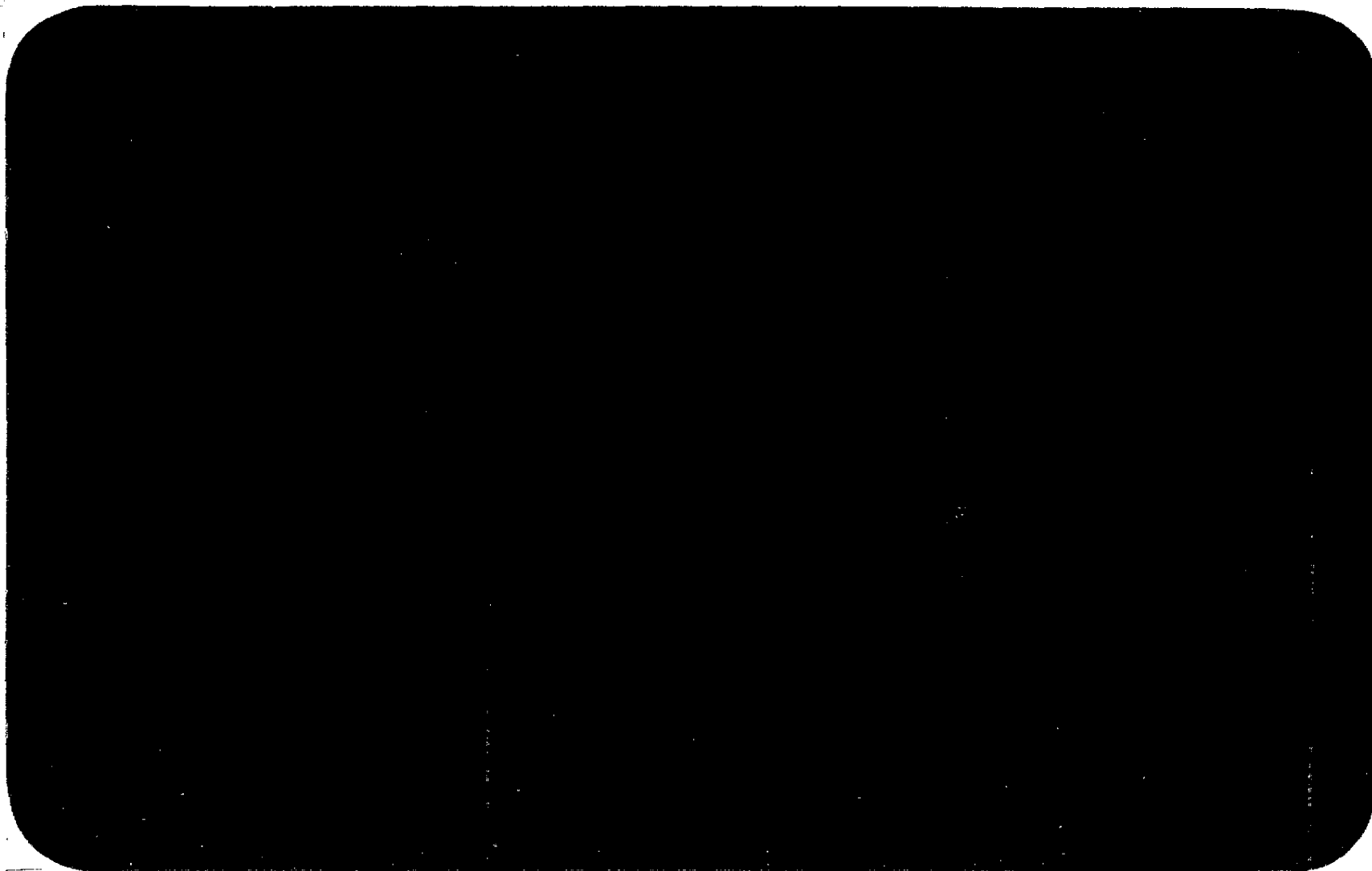


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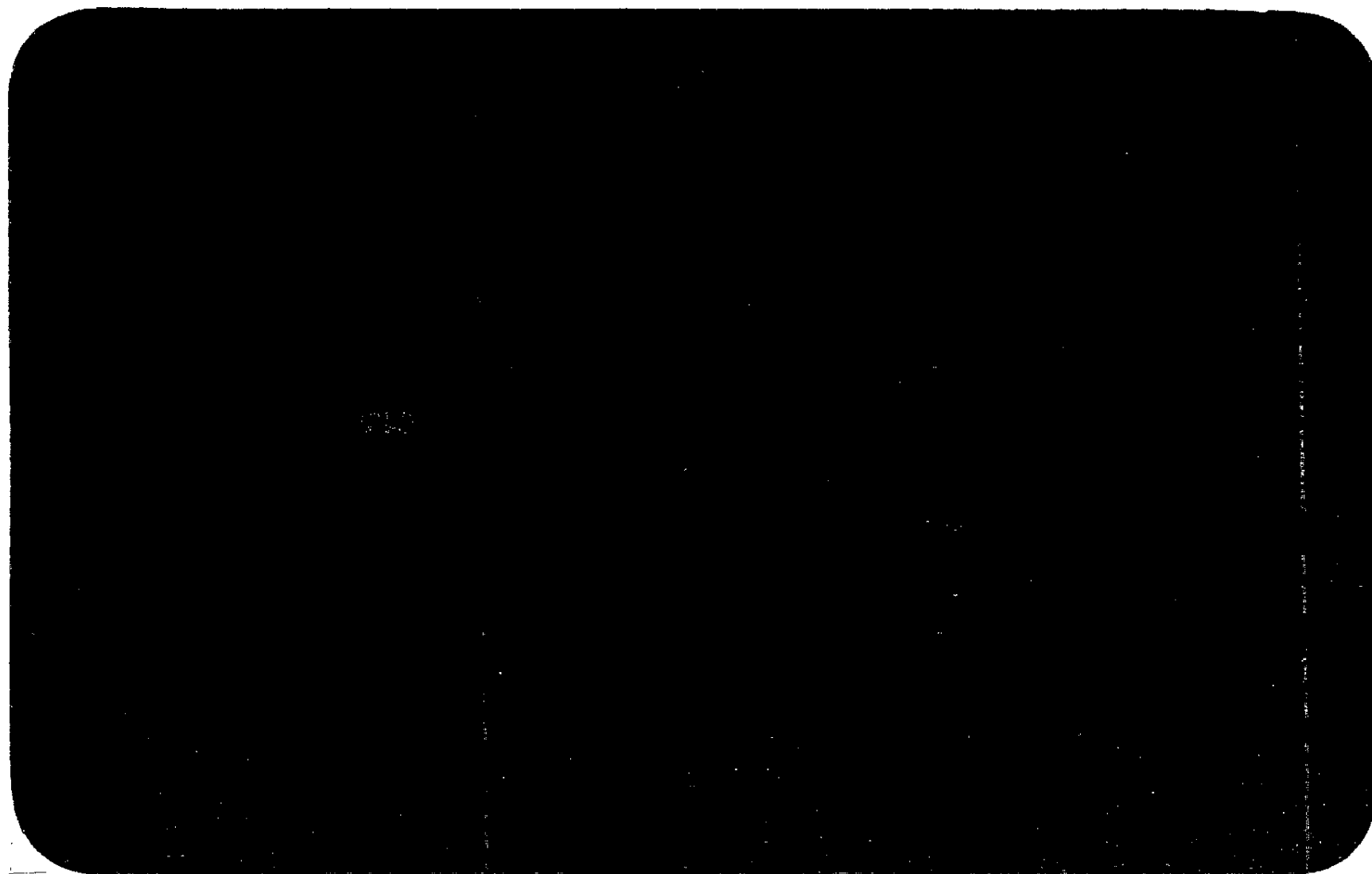


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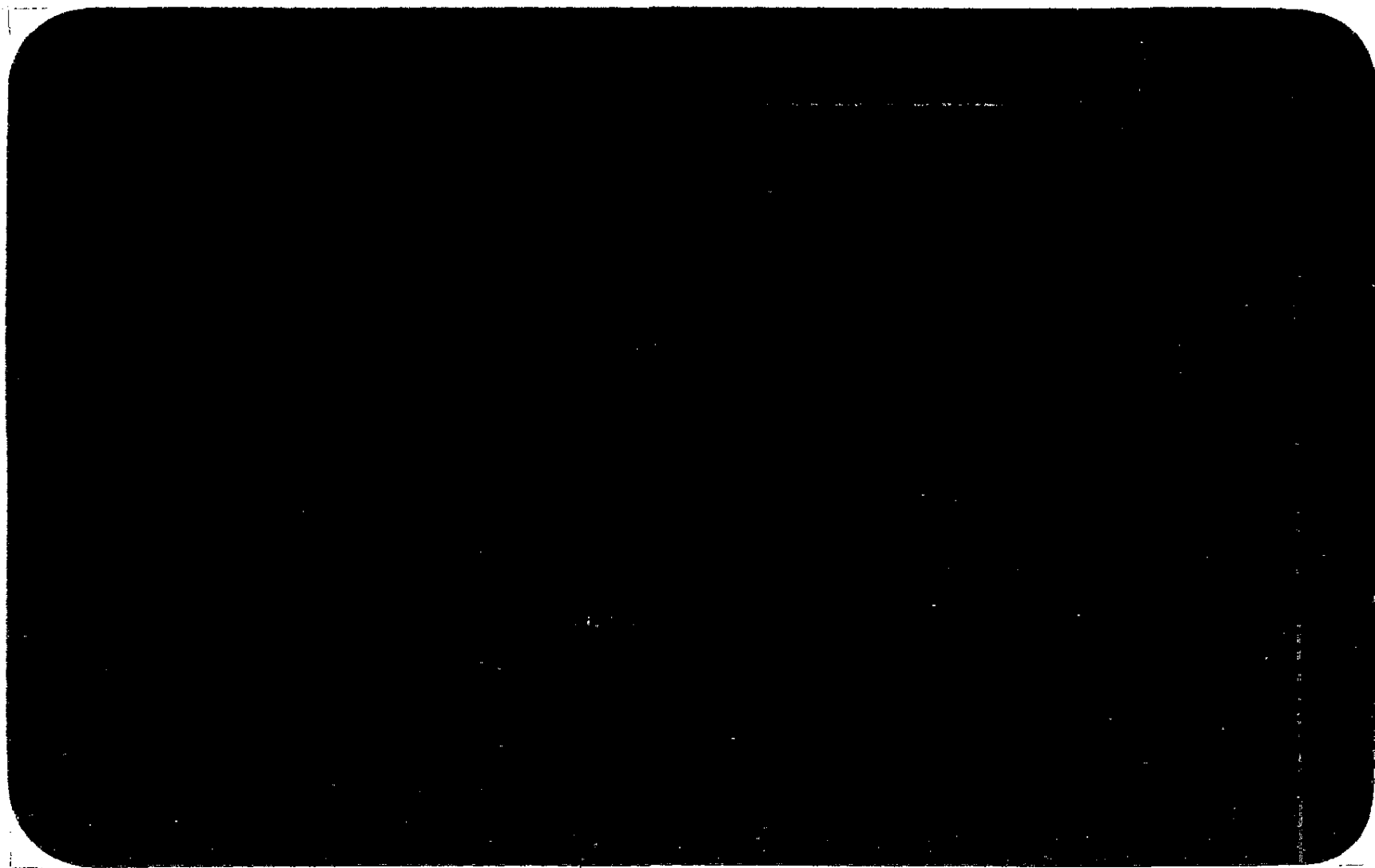


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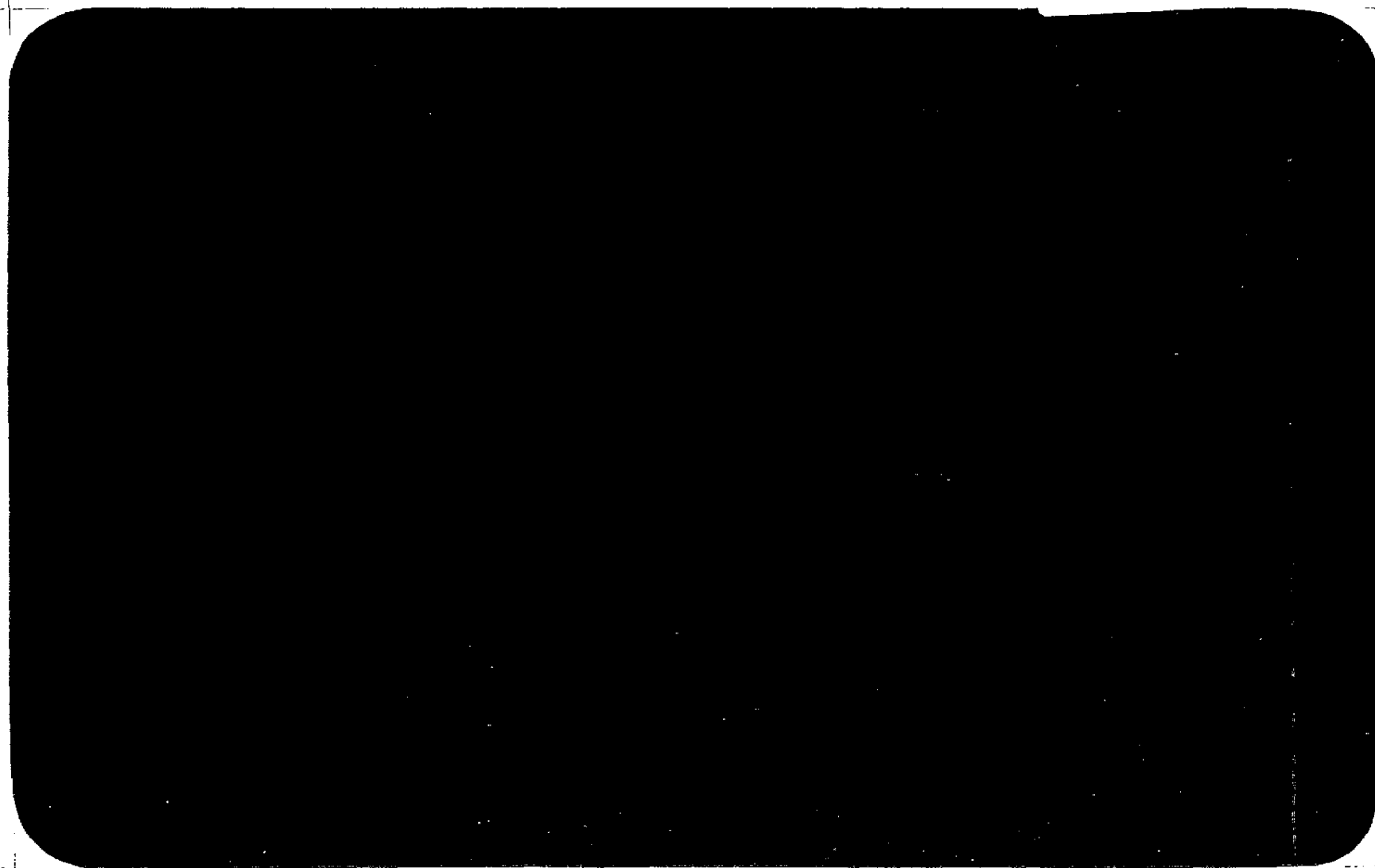
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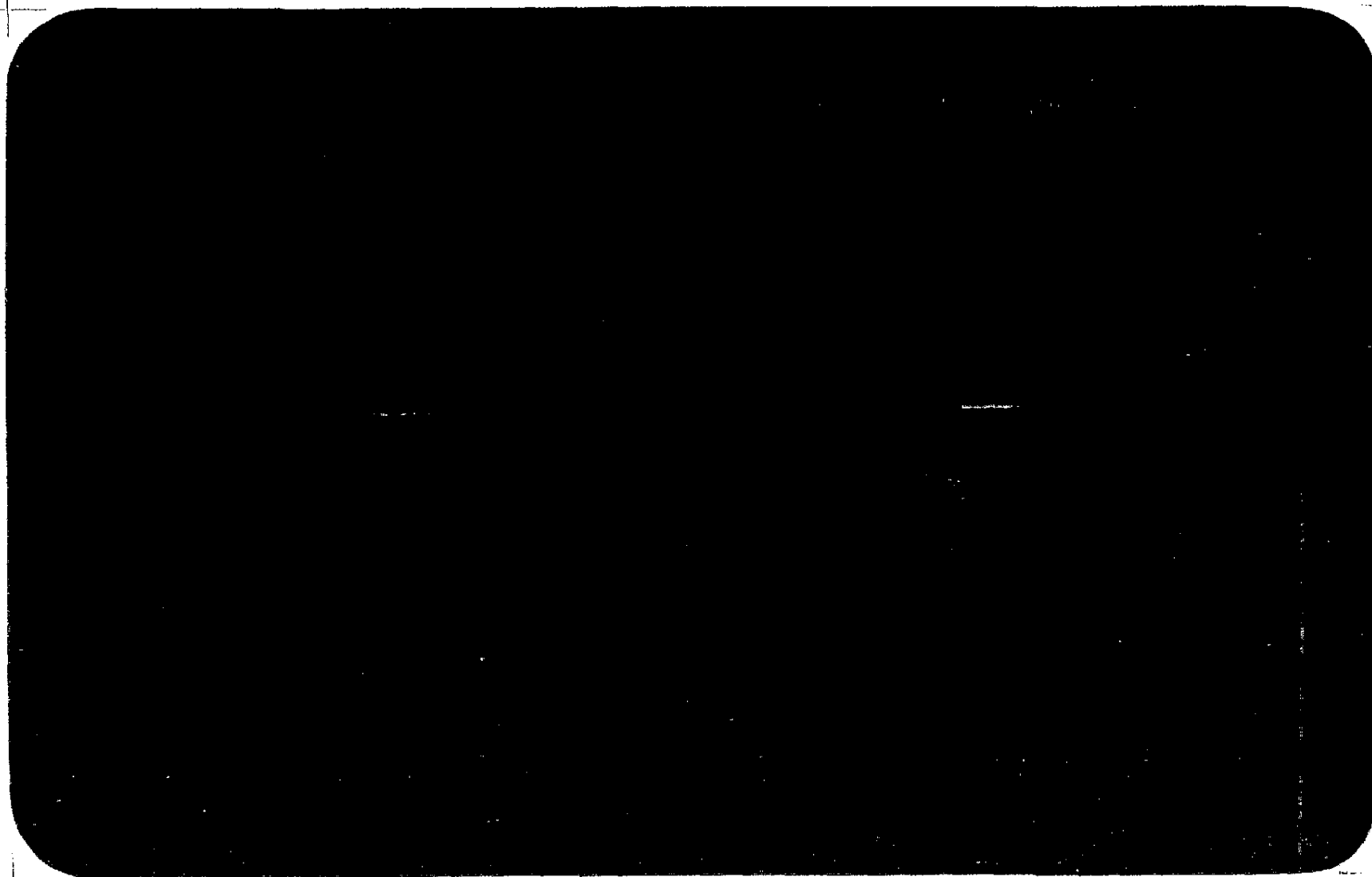


What We Learned

- Sustain Brand Promotions to Maximize Effect
- New "News" to Make Brands Relevant
- Competitive Niche Strategy Works
- Pricing Slows Discount Growth
- Black and White Needs Special Strategy
- Integration of Strategic Elements is Required

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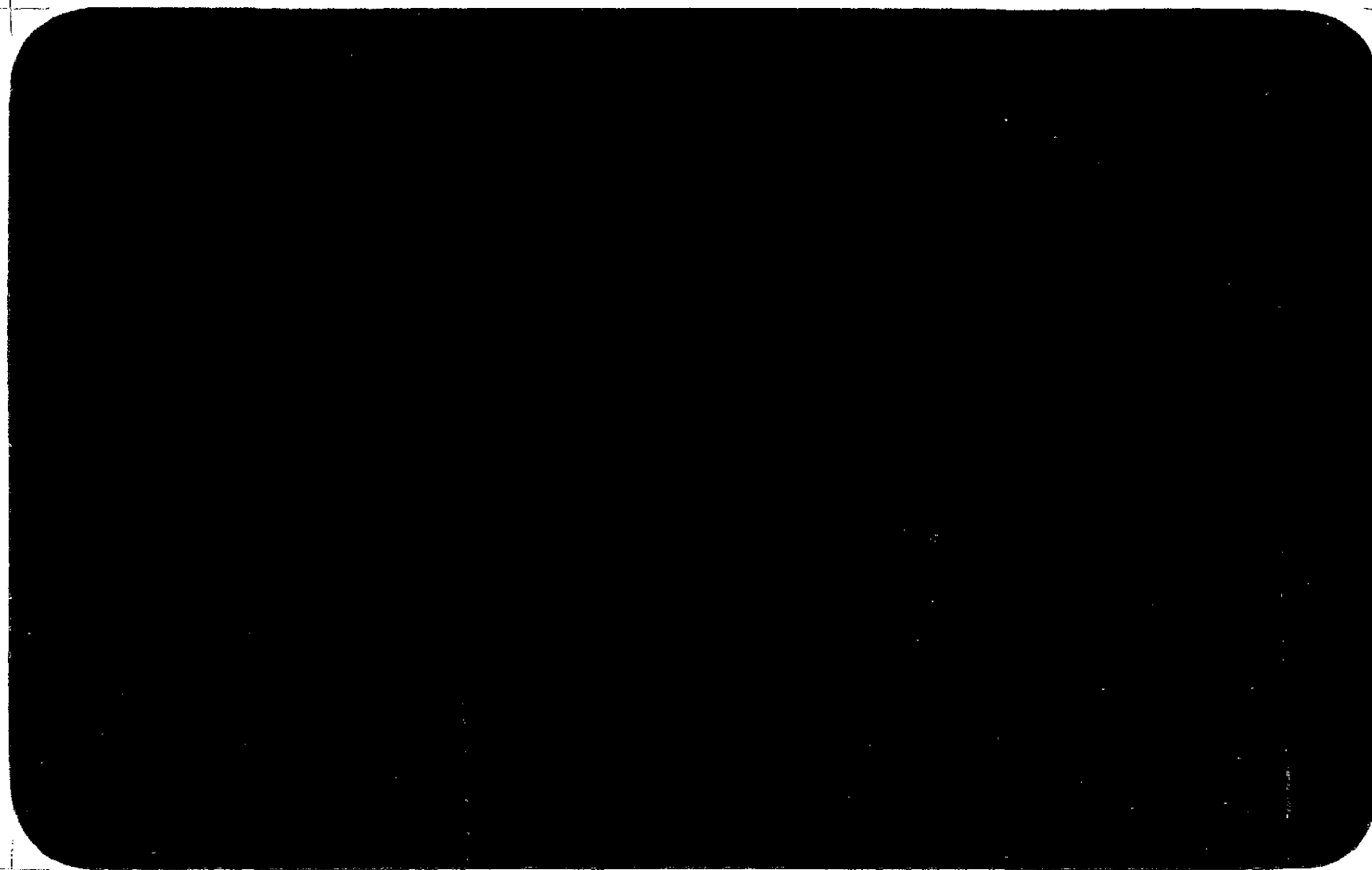
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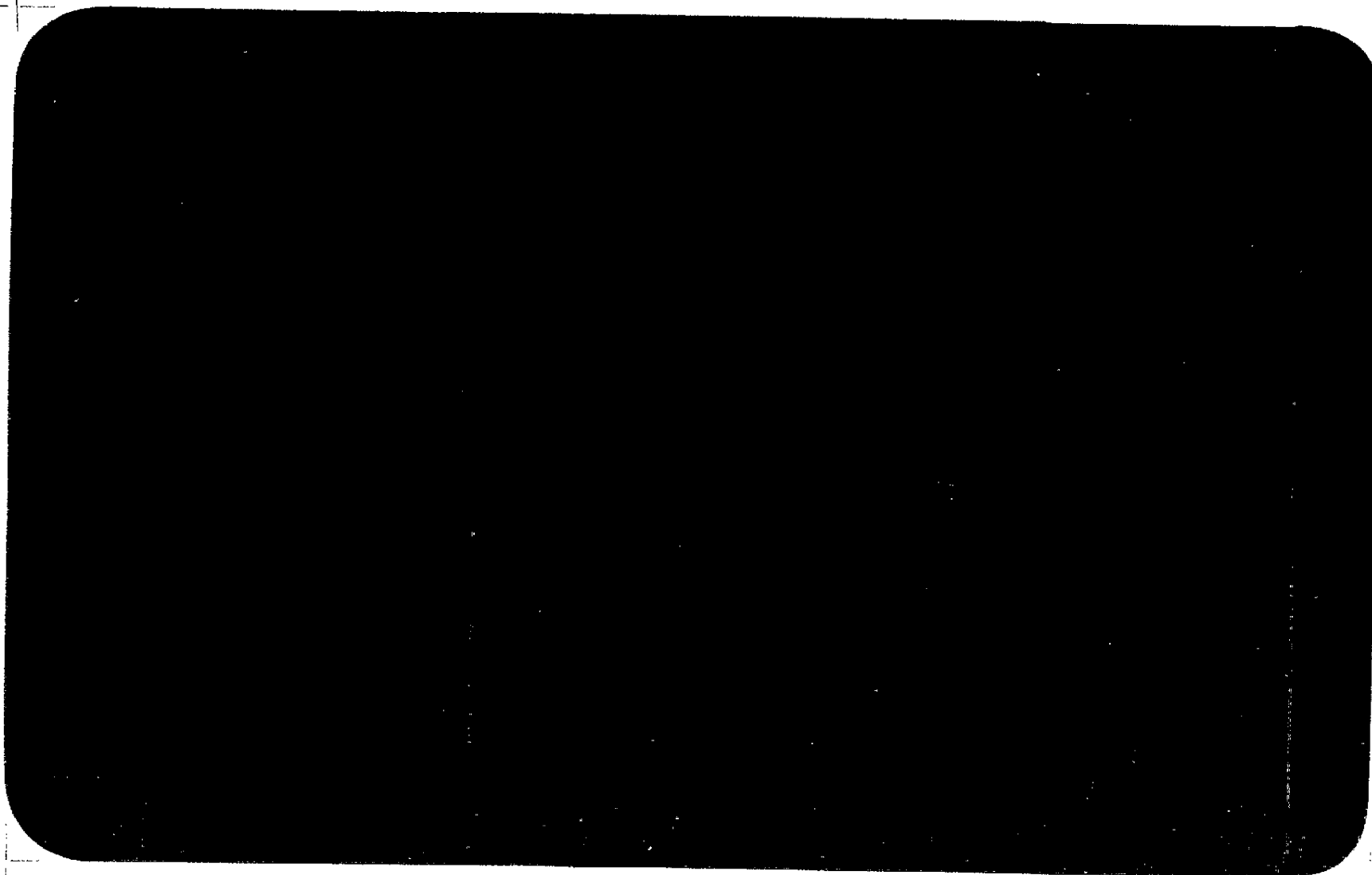


Niche Strategy

- Force Competitors to Defend Premium Brands
- Target Our New Brands
 - Merit Ultima vs Carlton and Now
 - Commander vs Unfiltered Camel and Pall Mall
 - B&H King Size vs Menthol/Other KS
- Pursue Additional Opportunities

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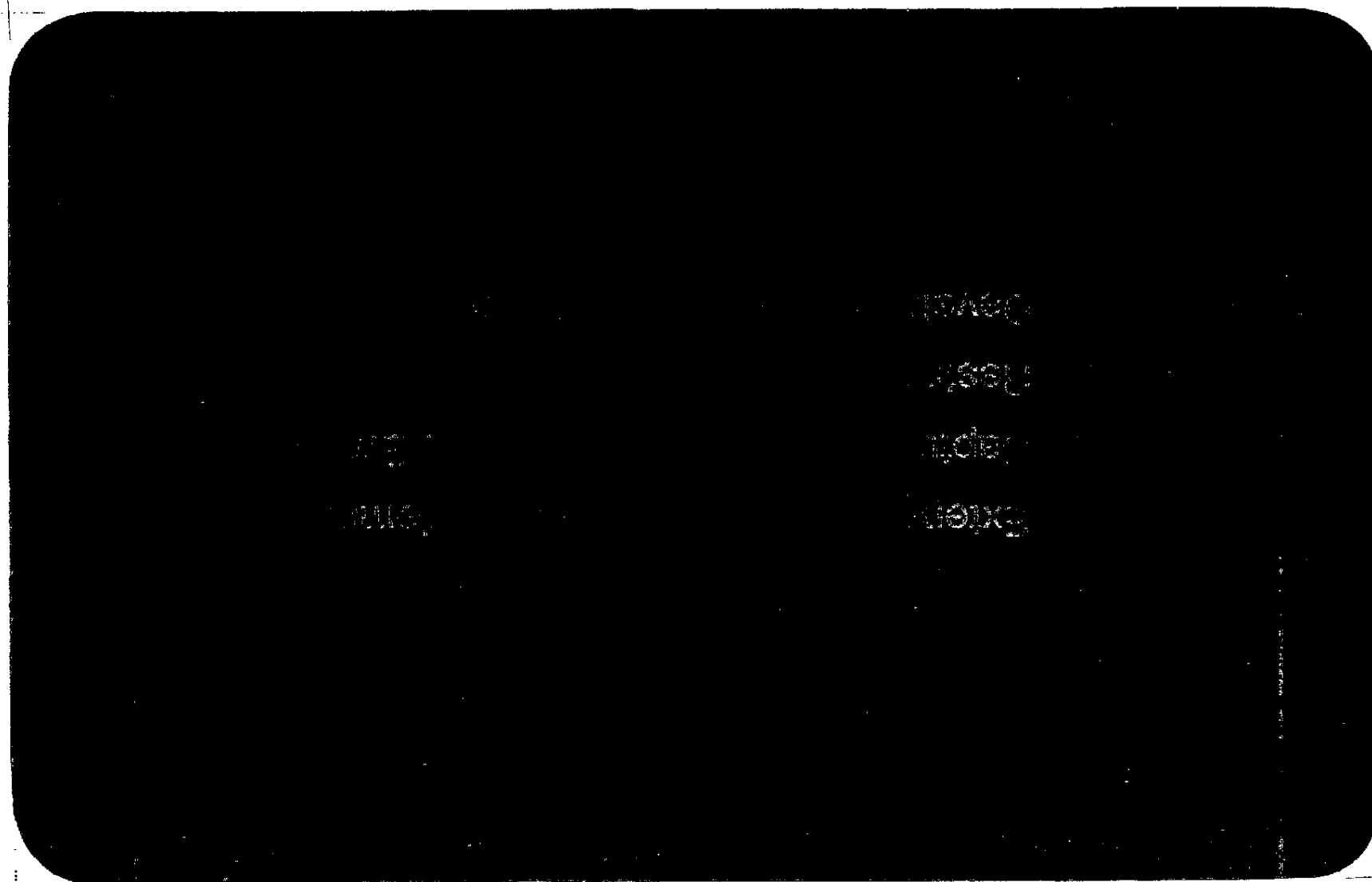
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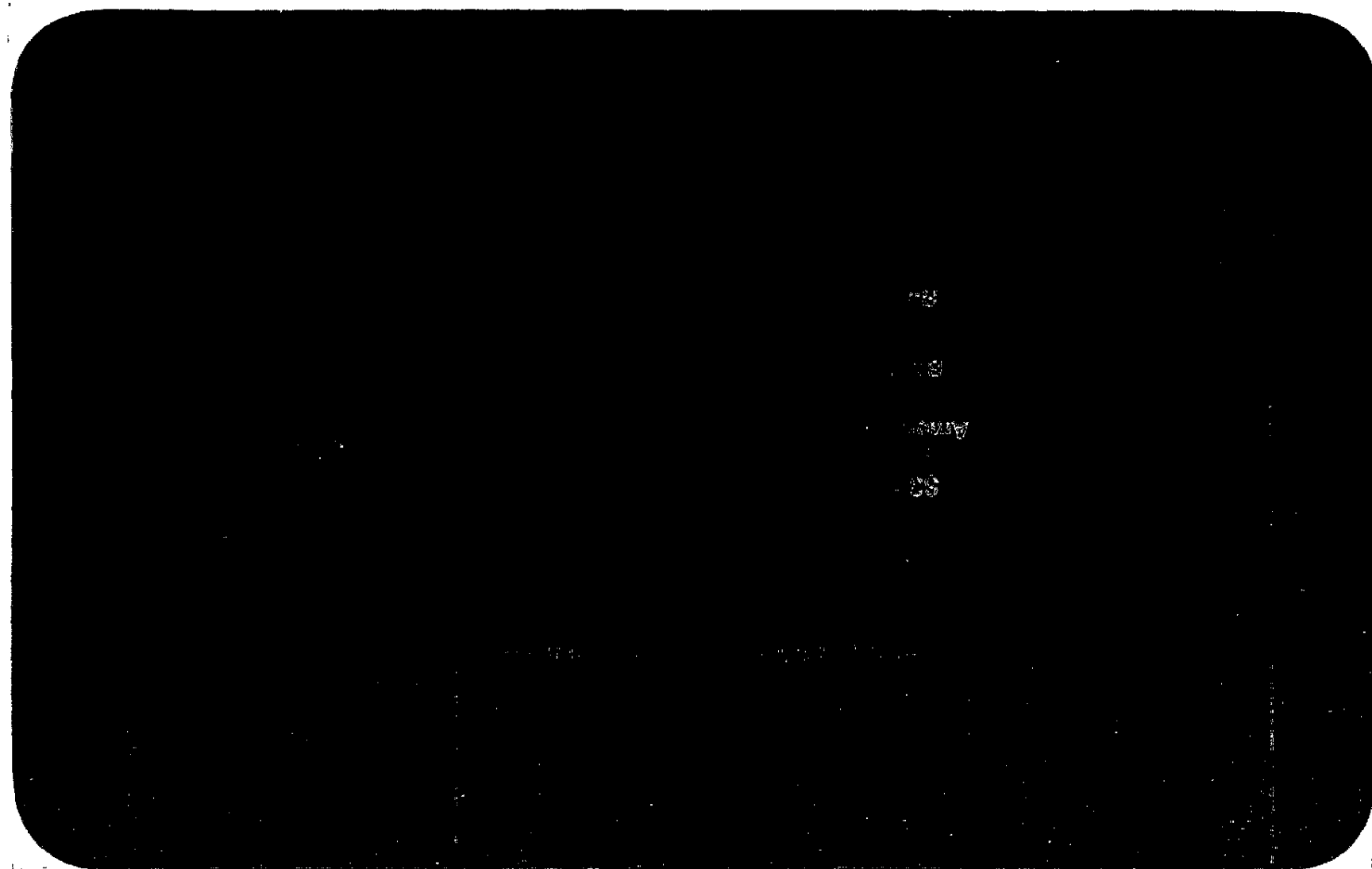


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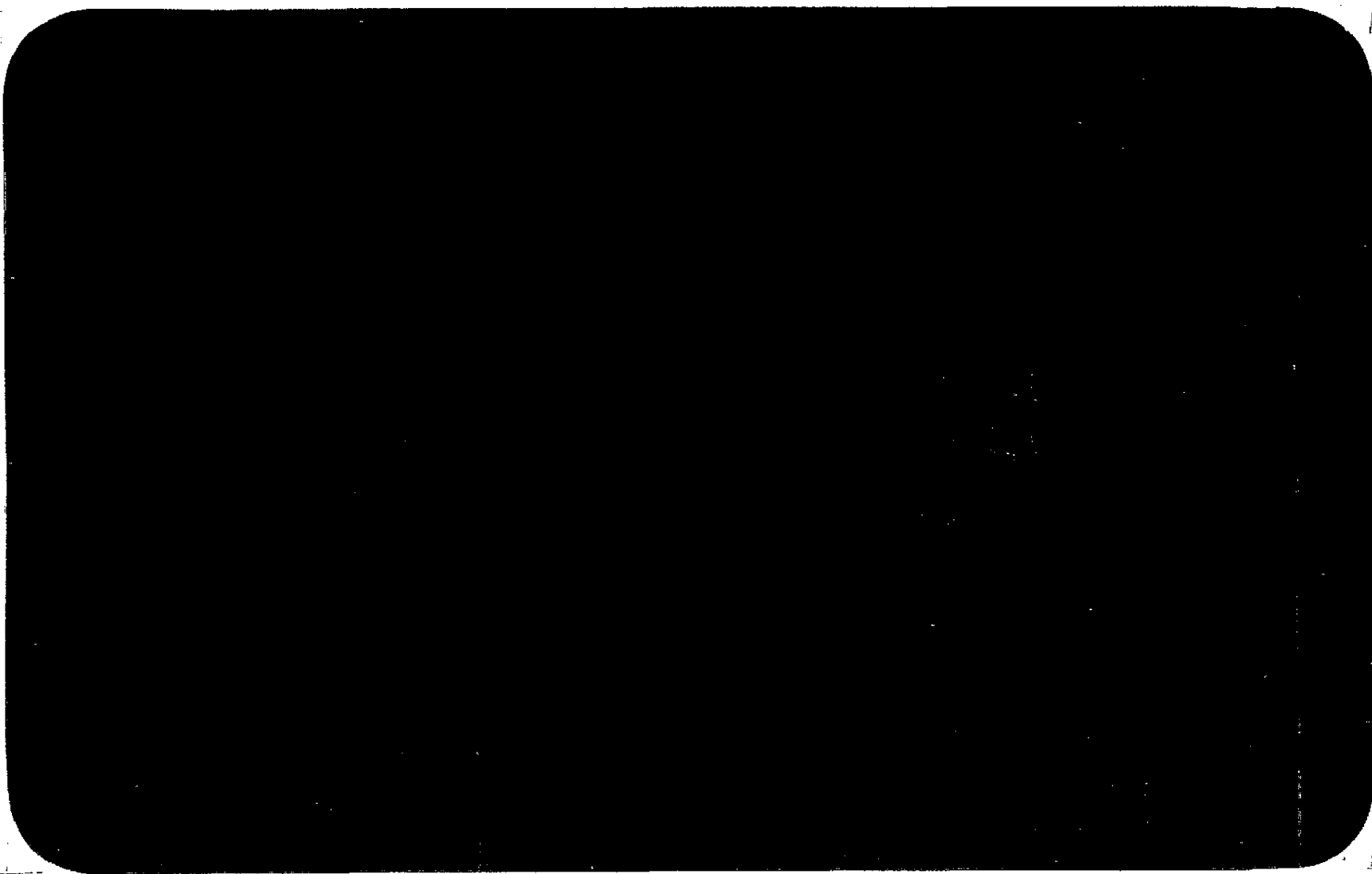


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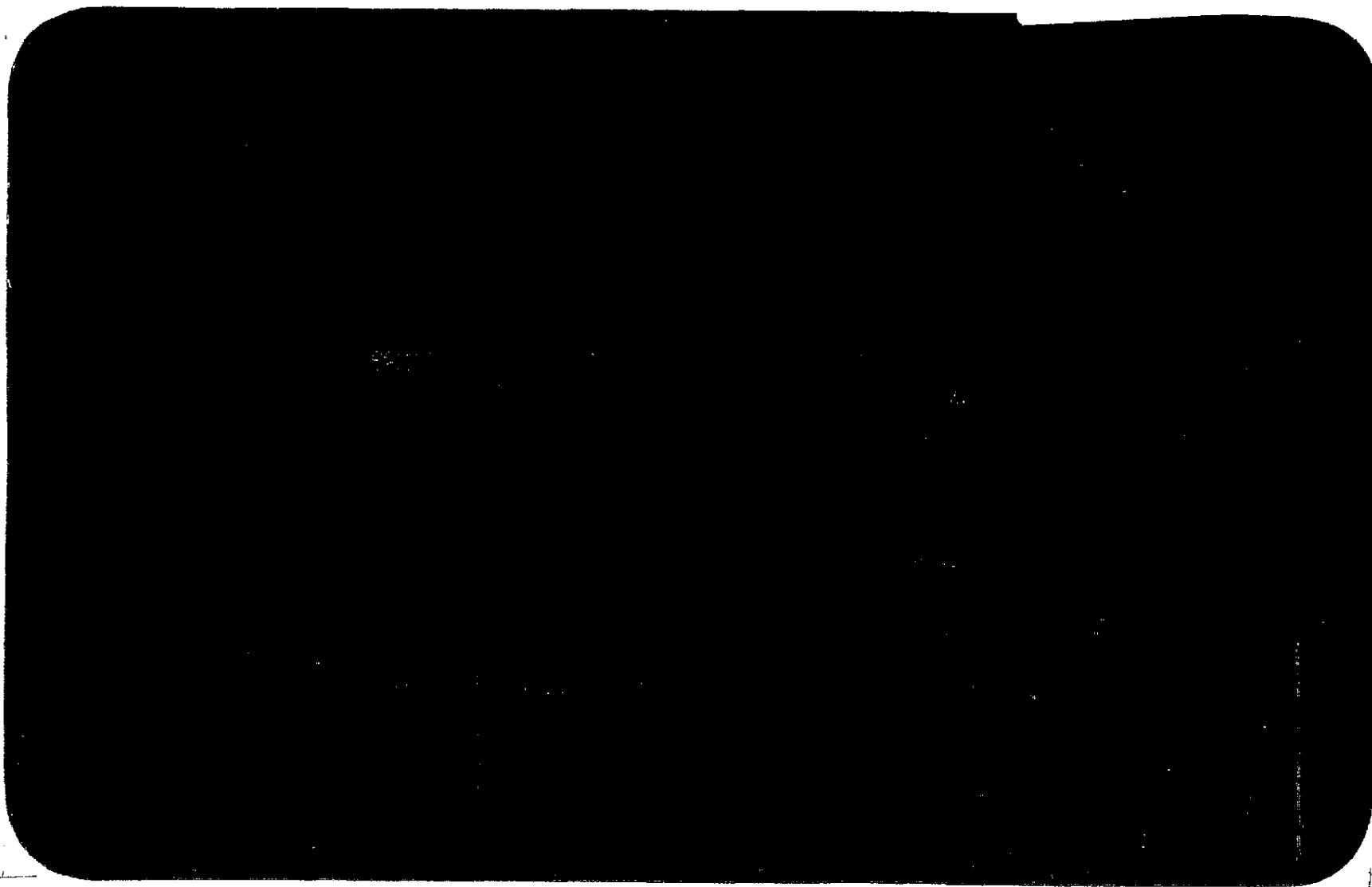
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RJRT: A Major American

Returned Premiums: 1.4
(in Billions)

Contributed:
(Thousand)

Income: 1.50
(Share)

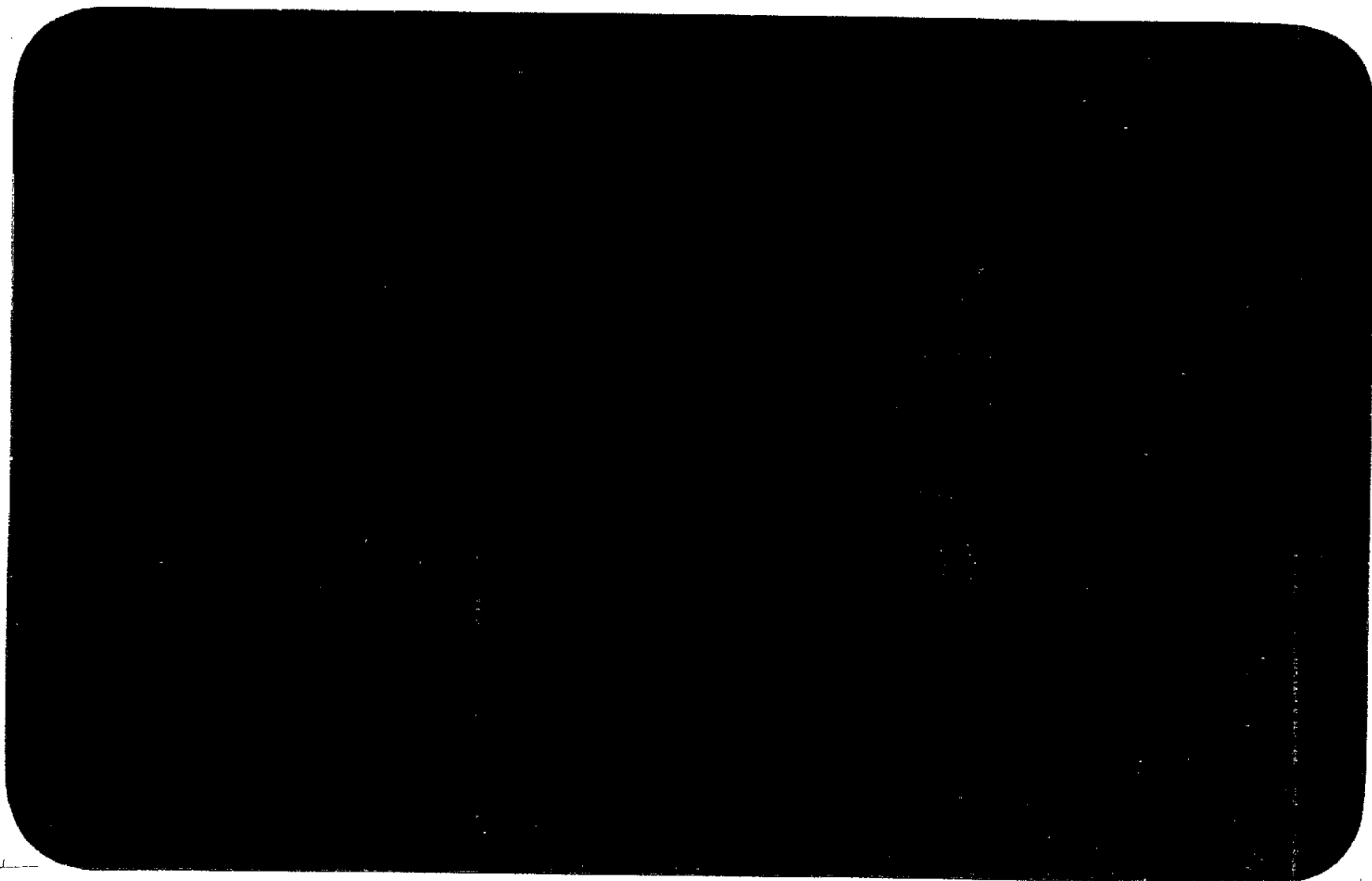
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Competitor Profitability Analysis

- No Income Growth or Premium
- Seek Income by Growing Discount Volume
- Limit Competitor Discount Growth Opportunities
- Gain "Fair Share" (40% of Discount Growth)

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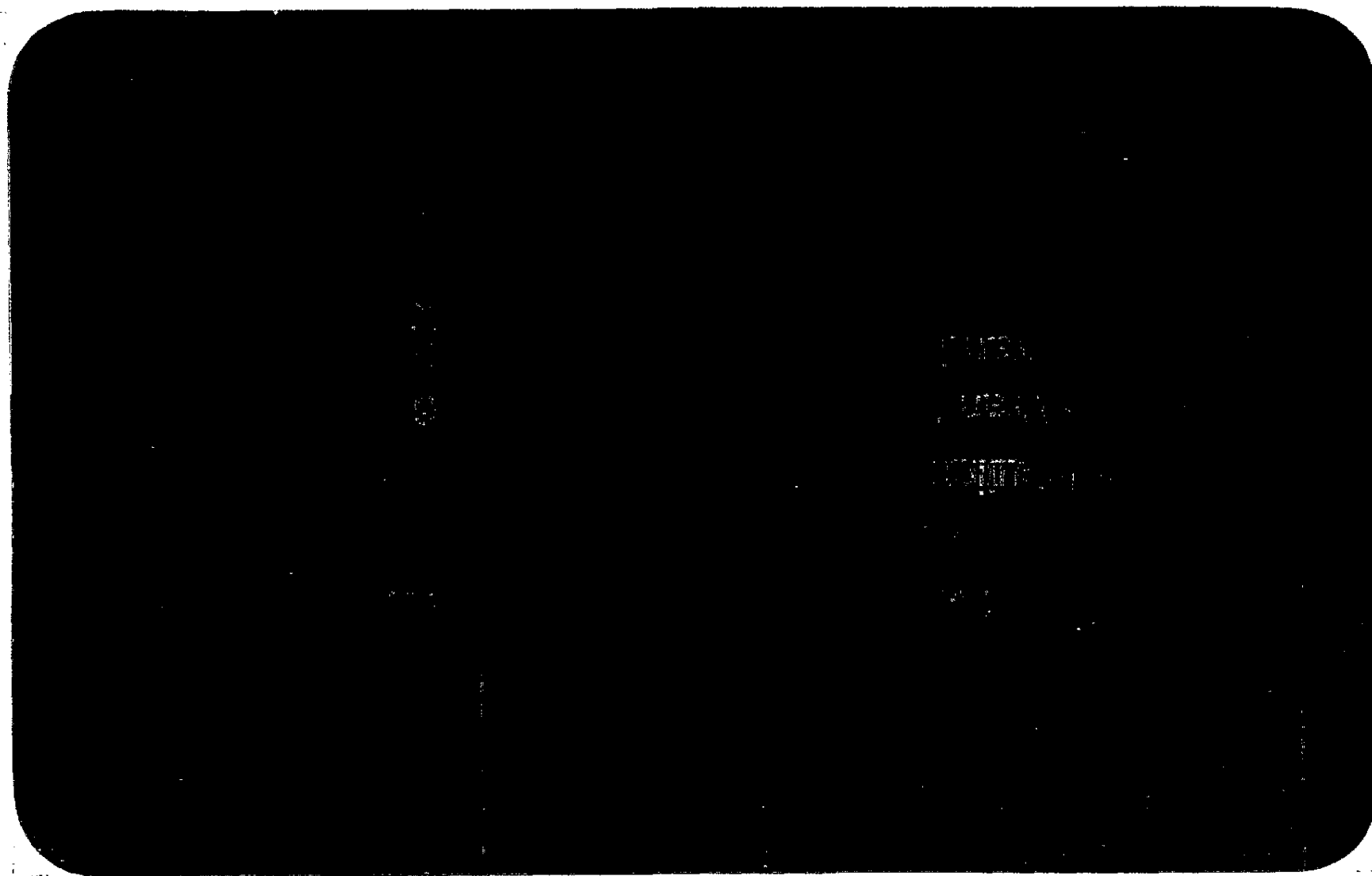
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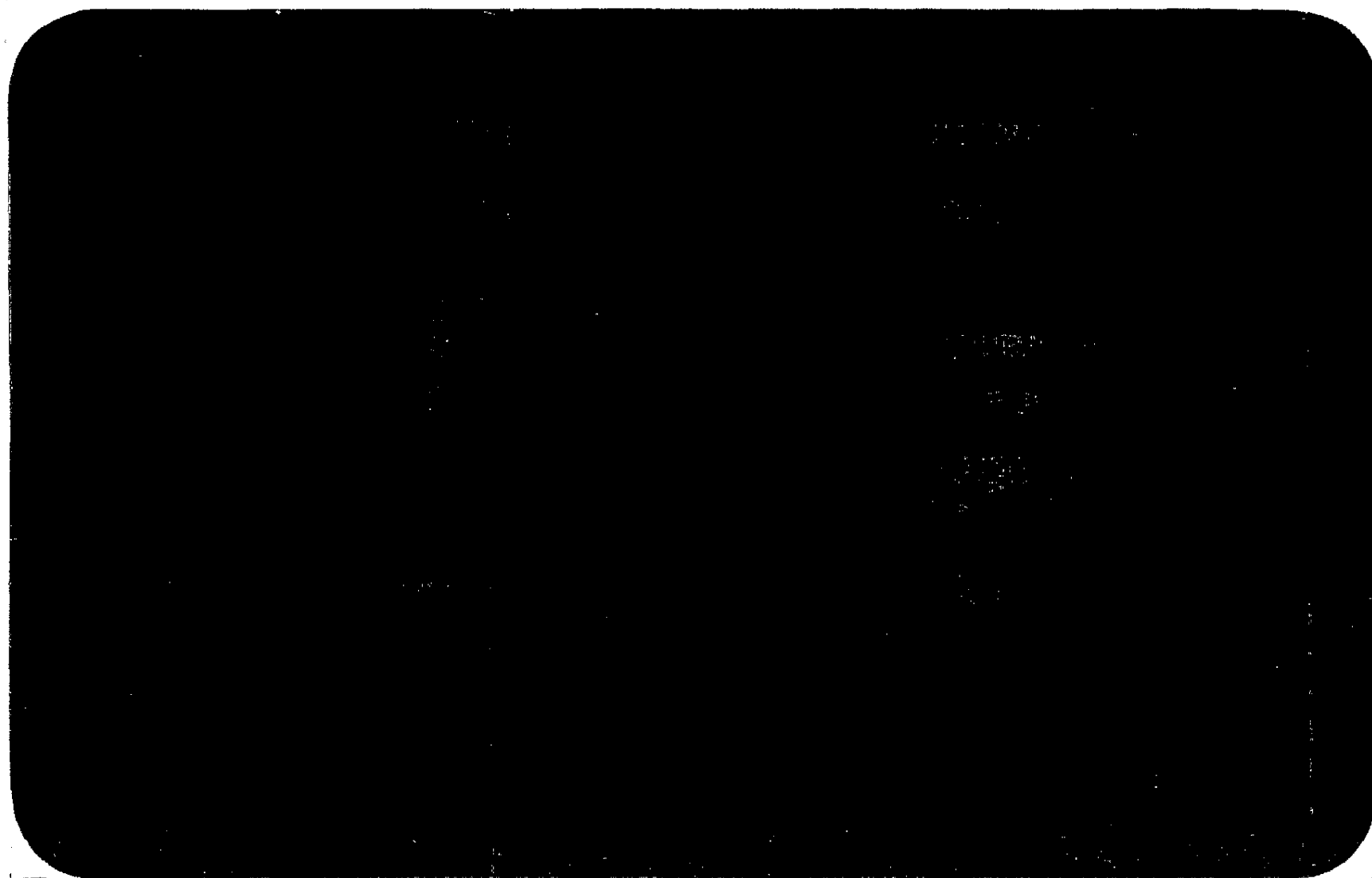
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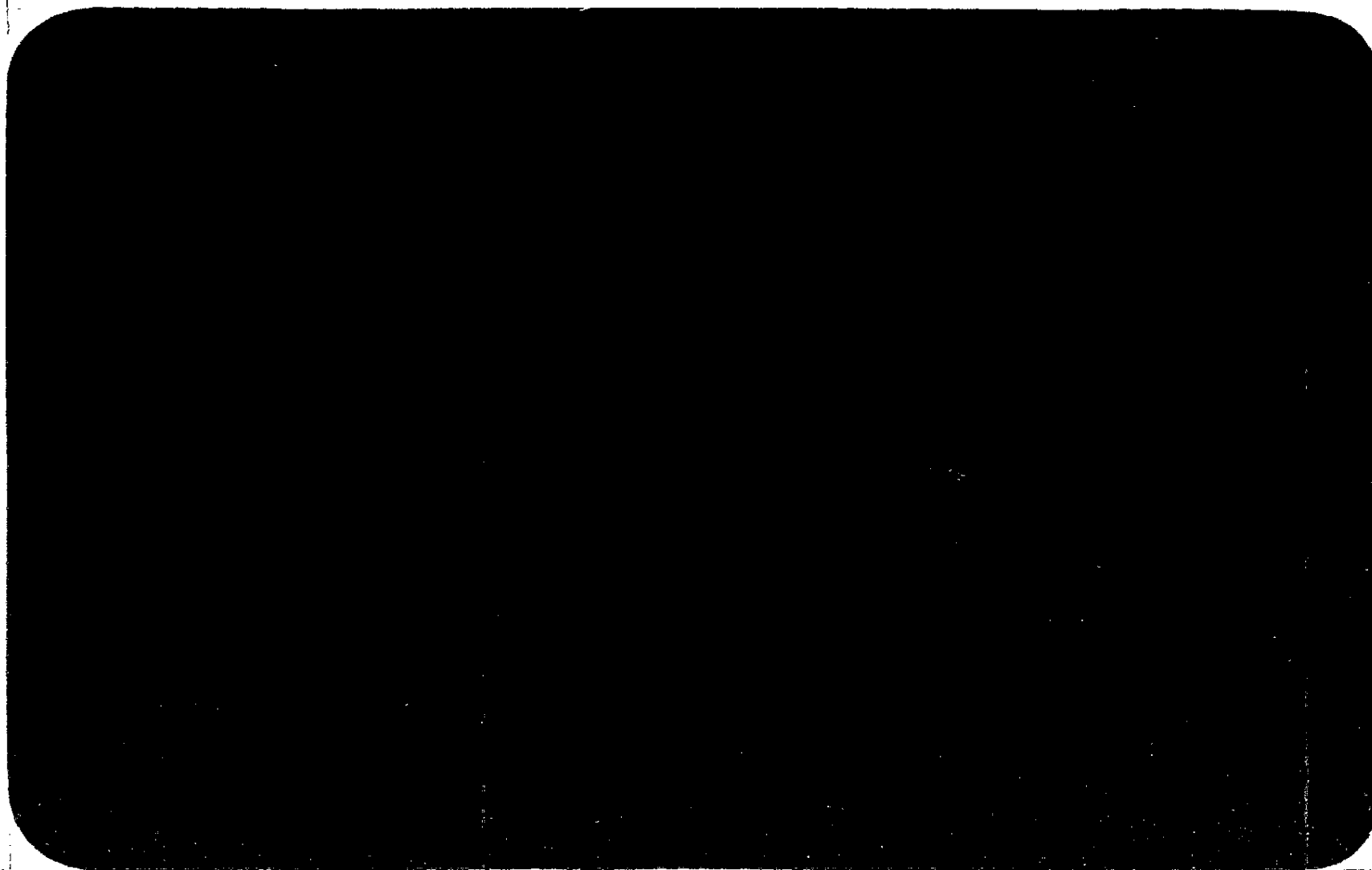
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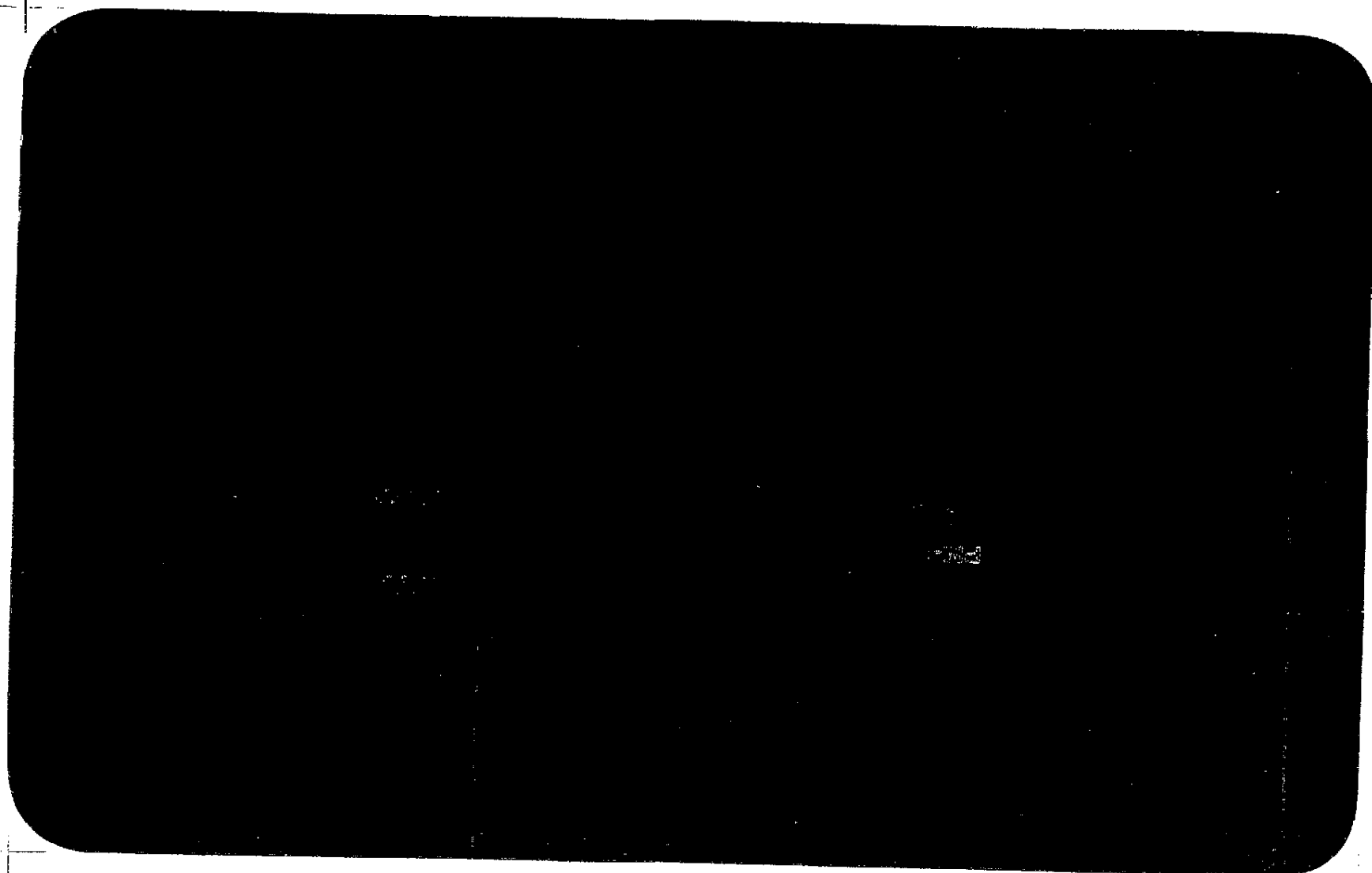
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1911

1912

1913

1914

1915

1916

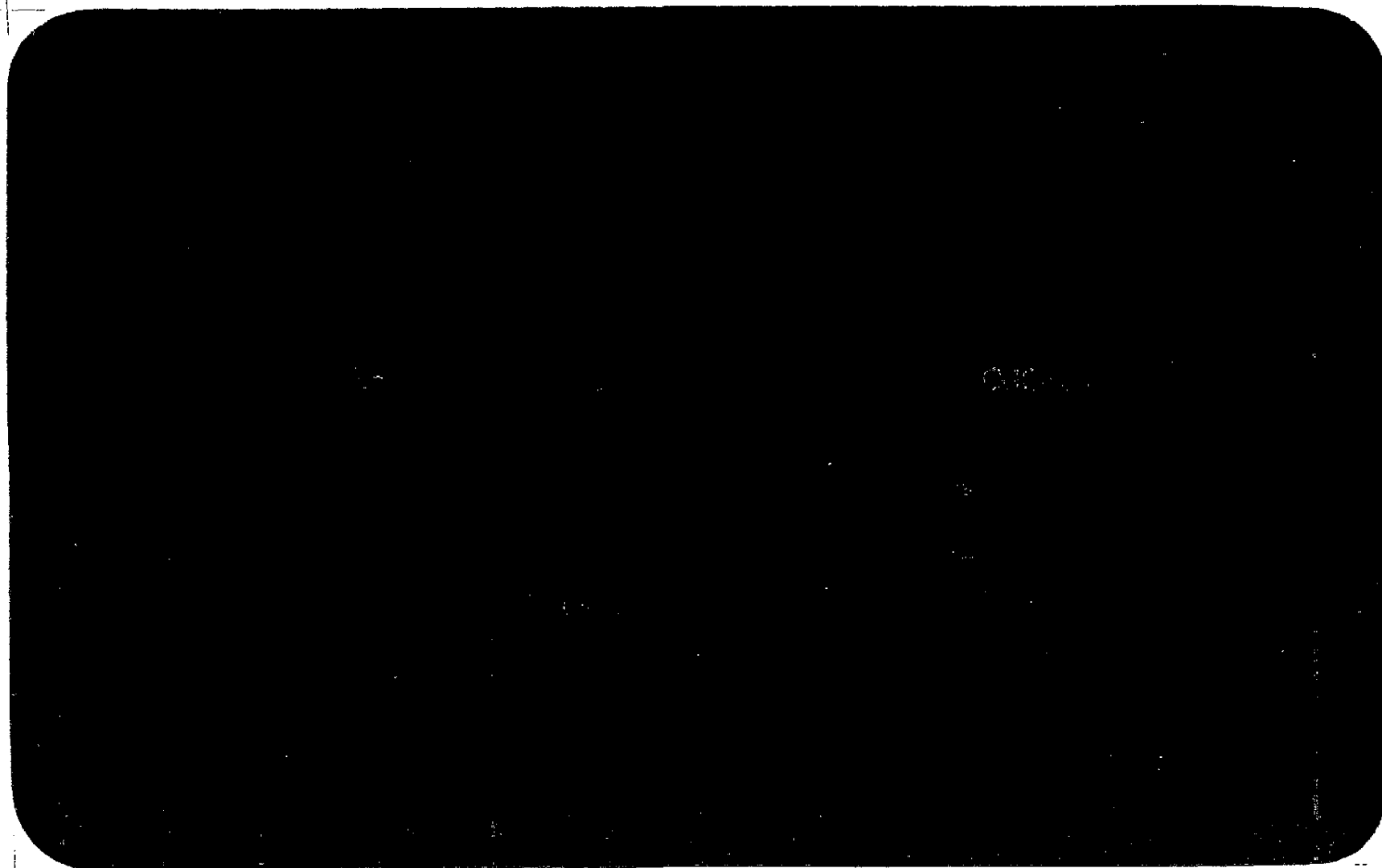
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1918

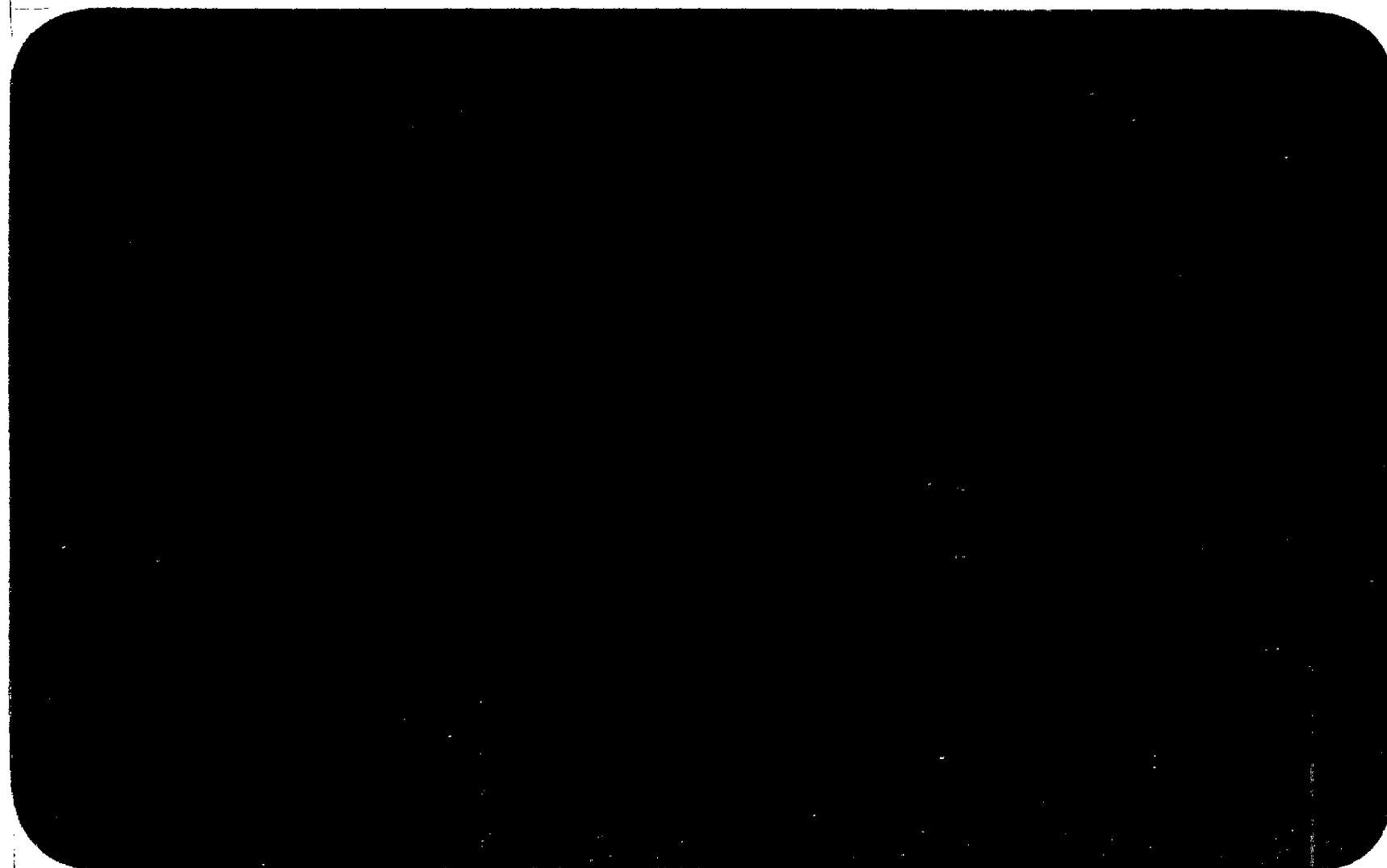
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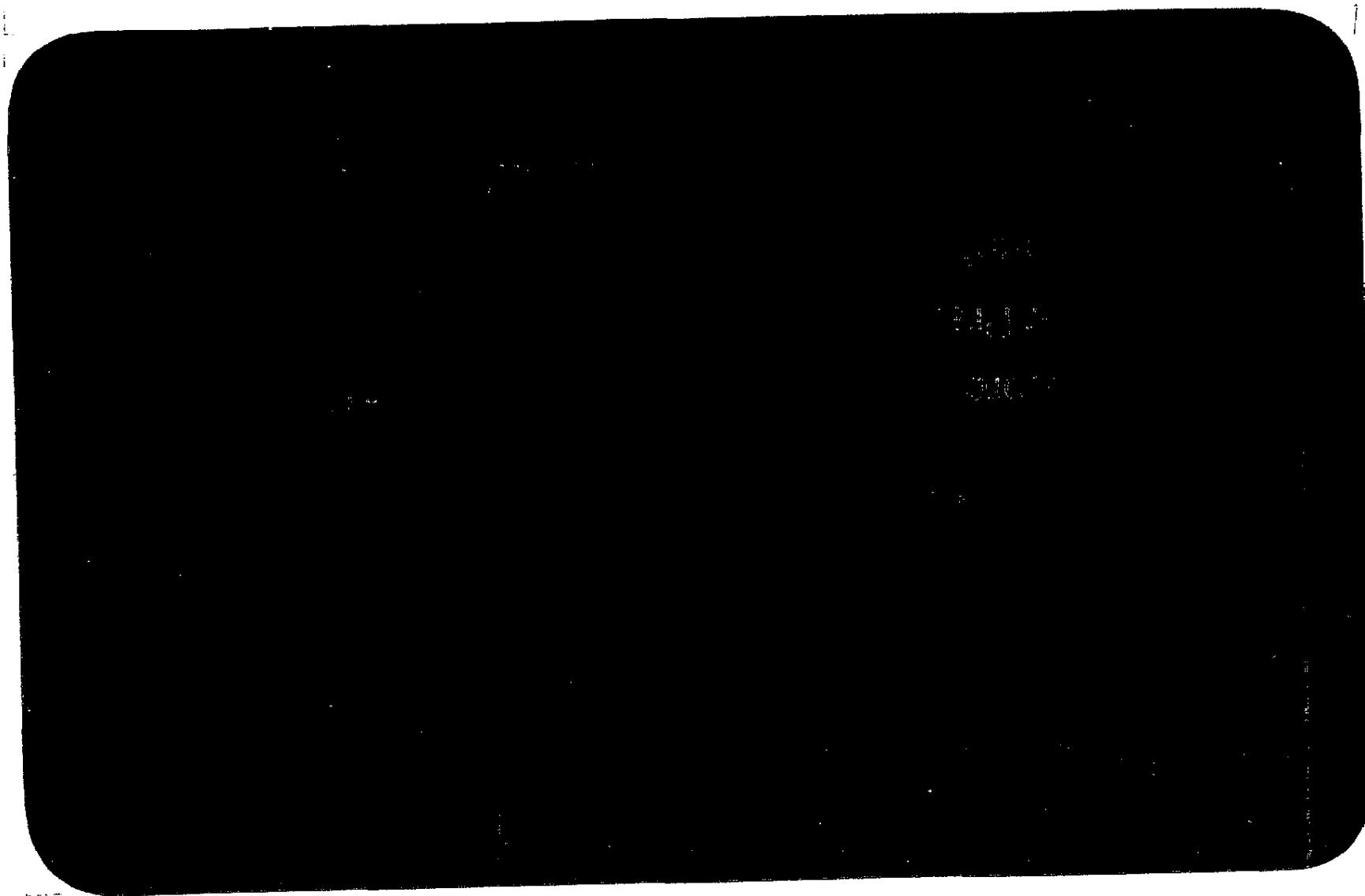
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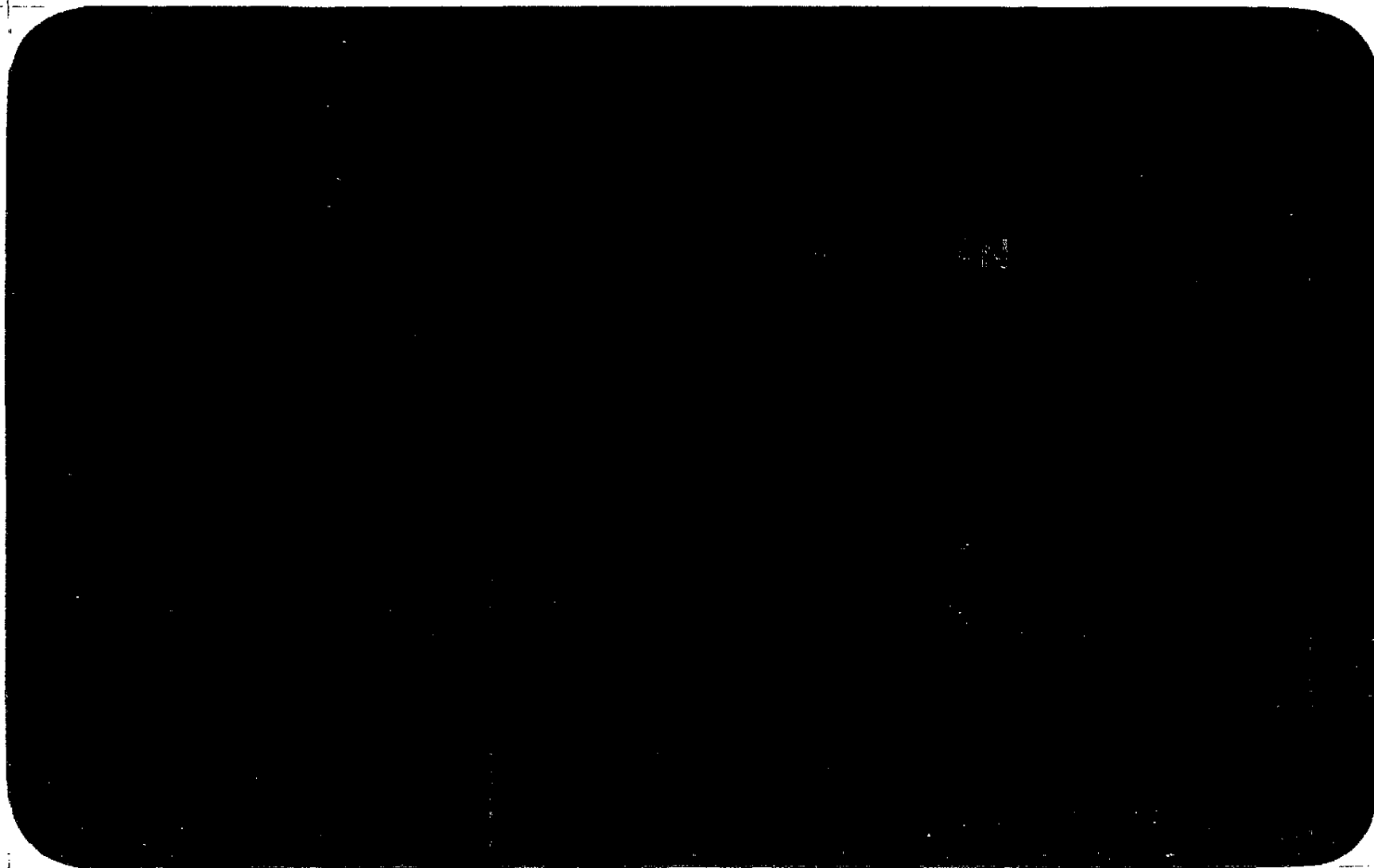


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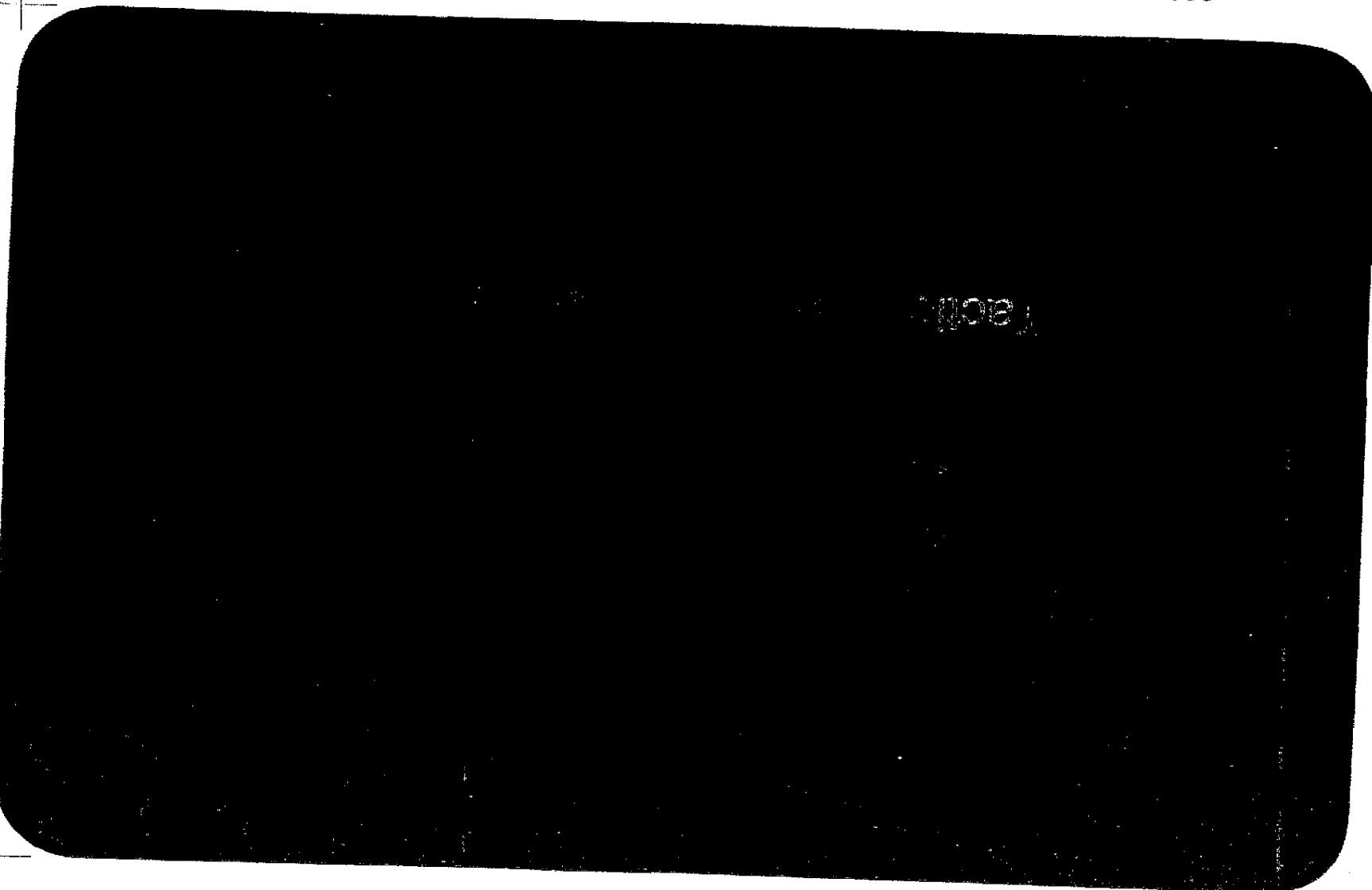


Operations Priorities

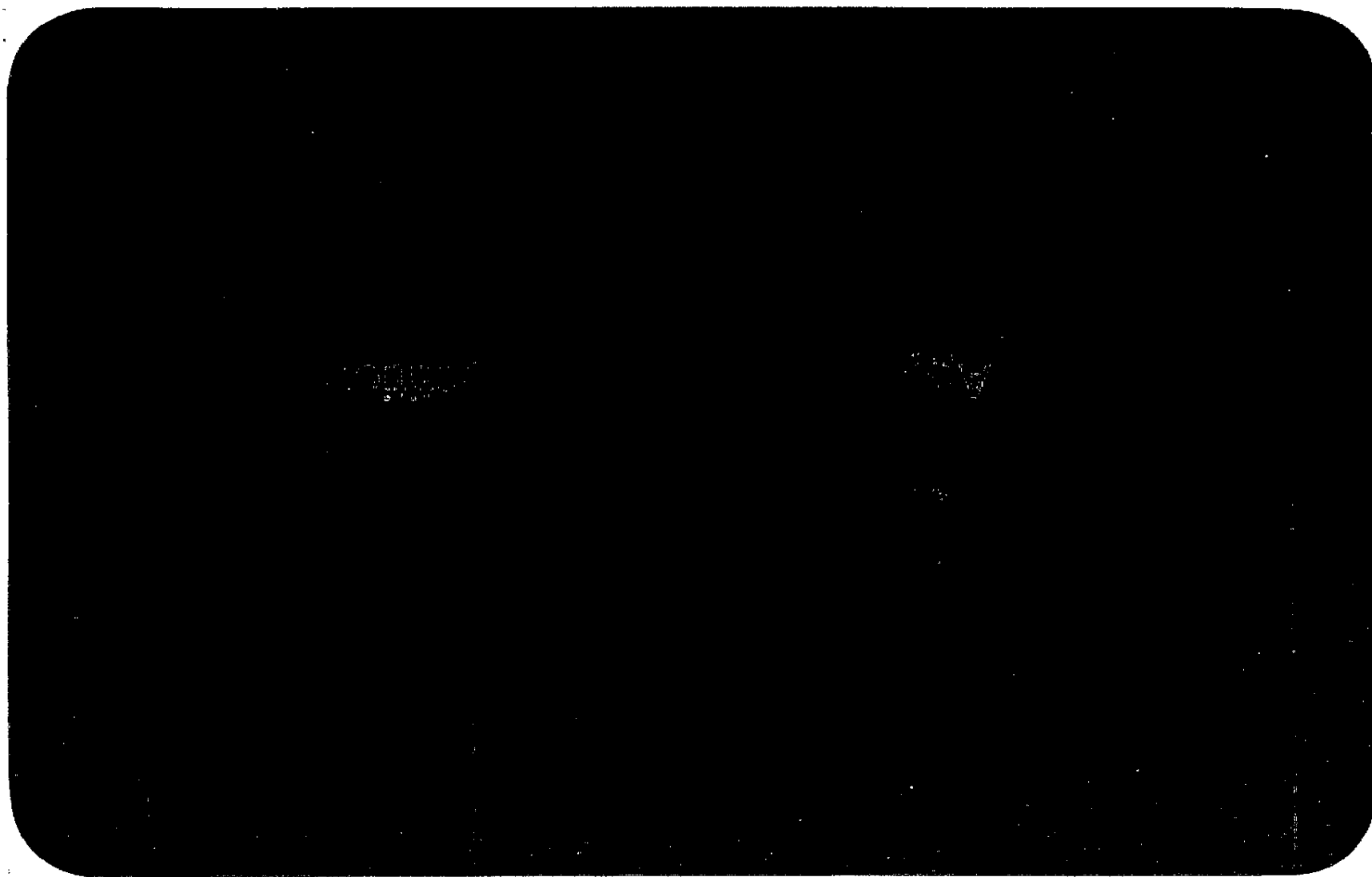
- Step Up Research and Development
- Add Technologies to the Tool Box
- Develop New Attributes to Deliver Consumer Benefits
- Enhance Premium Trademarks

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18012

Fix

Fix

Back

Reluctant to
Brands
Smell

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Risks

- Competitive Forces
- Reduced Margins for Marlboro
- Black and White Margins
- Industry Volume Decline Accelerates
- Discount Category Growth Accelerates

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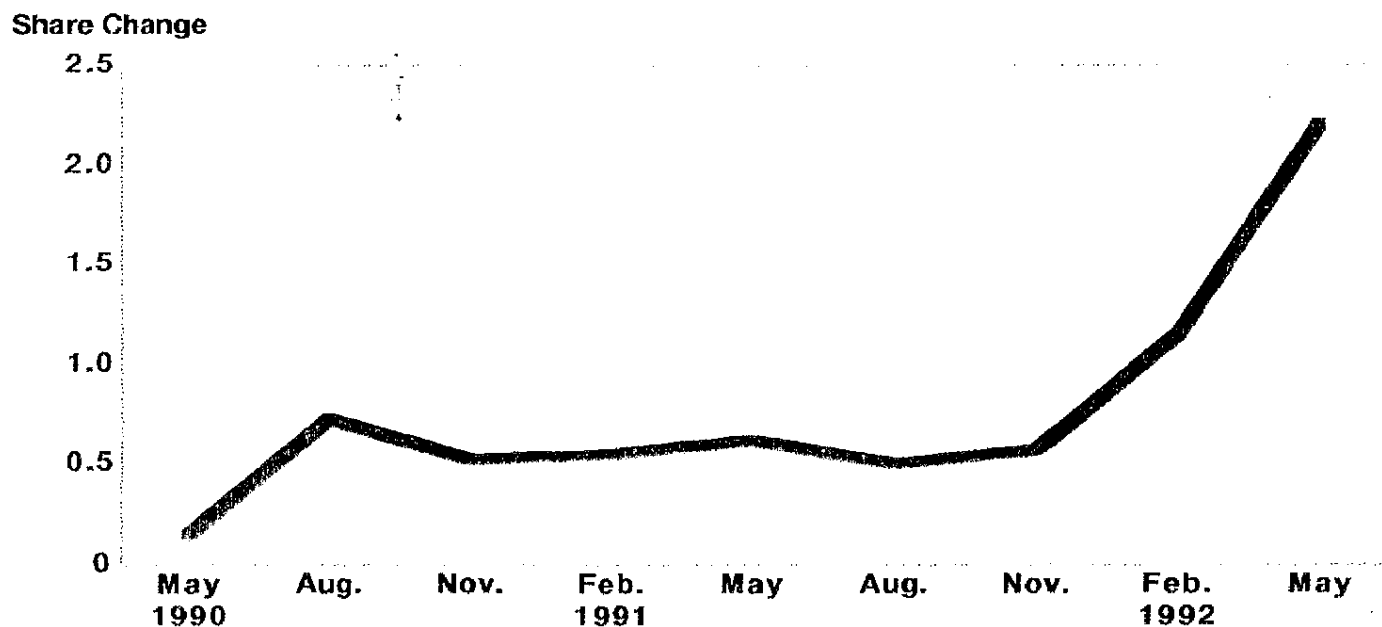
Risk Scenario

- Industry Volume Declines 3.5% Annually
- Discount Category Grows to 40%
- PM-USA Premium Brands Outperform Competitors' by 7%

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Industry Black & White/Private Label Performance

3MM vs. Previous 3MM

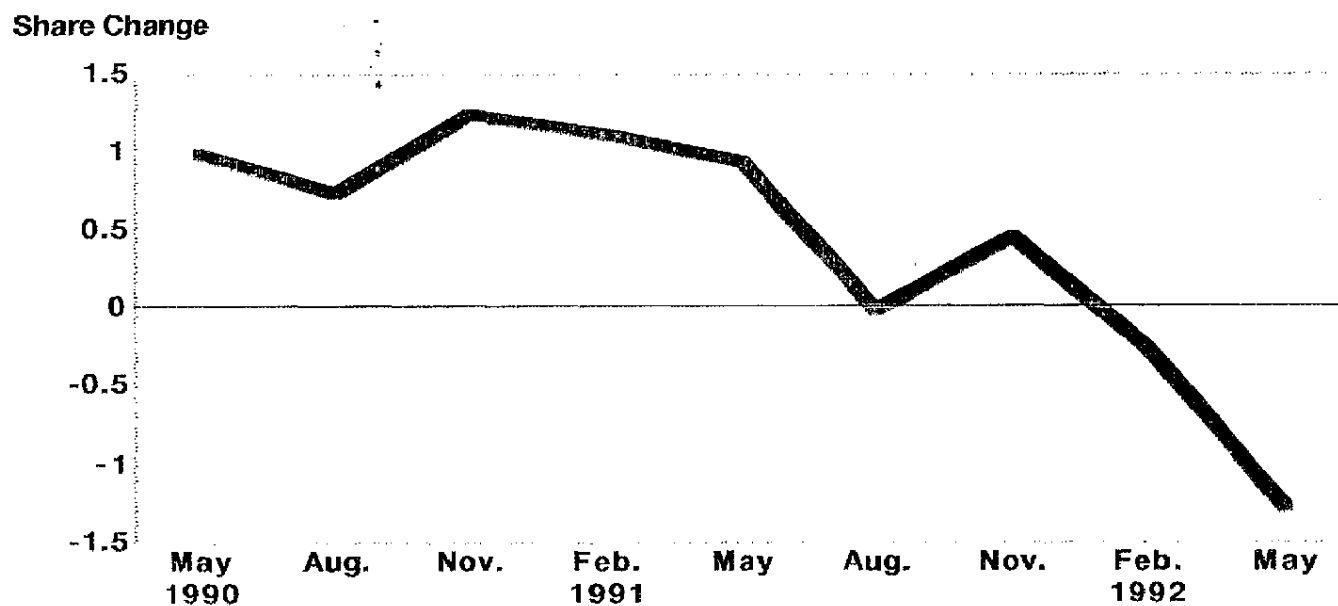


Source: New Nielsen

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Industry Branded Discount Performance

3MM vs. Previous 3MM

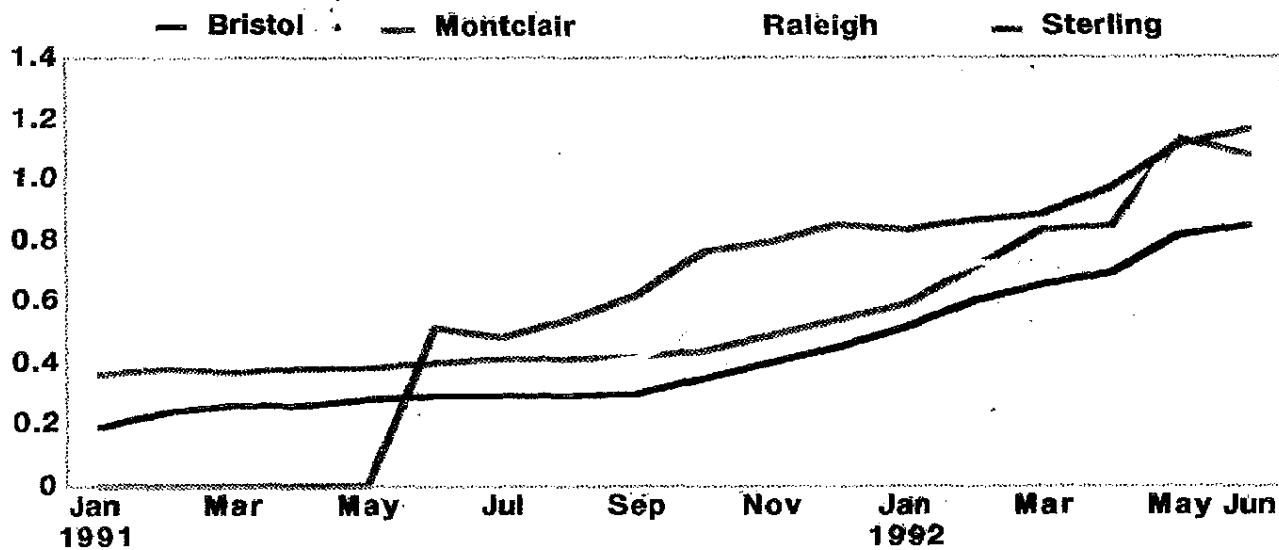


Source: New Nielsen

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Discount Effective On-Carton Couponing Weekly

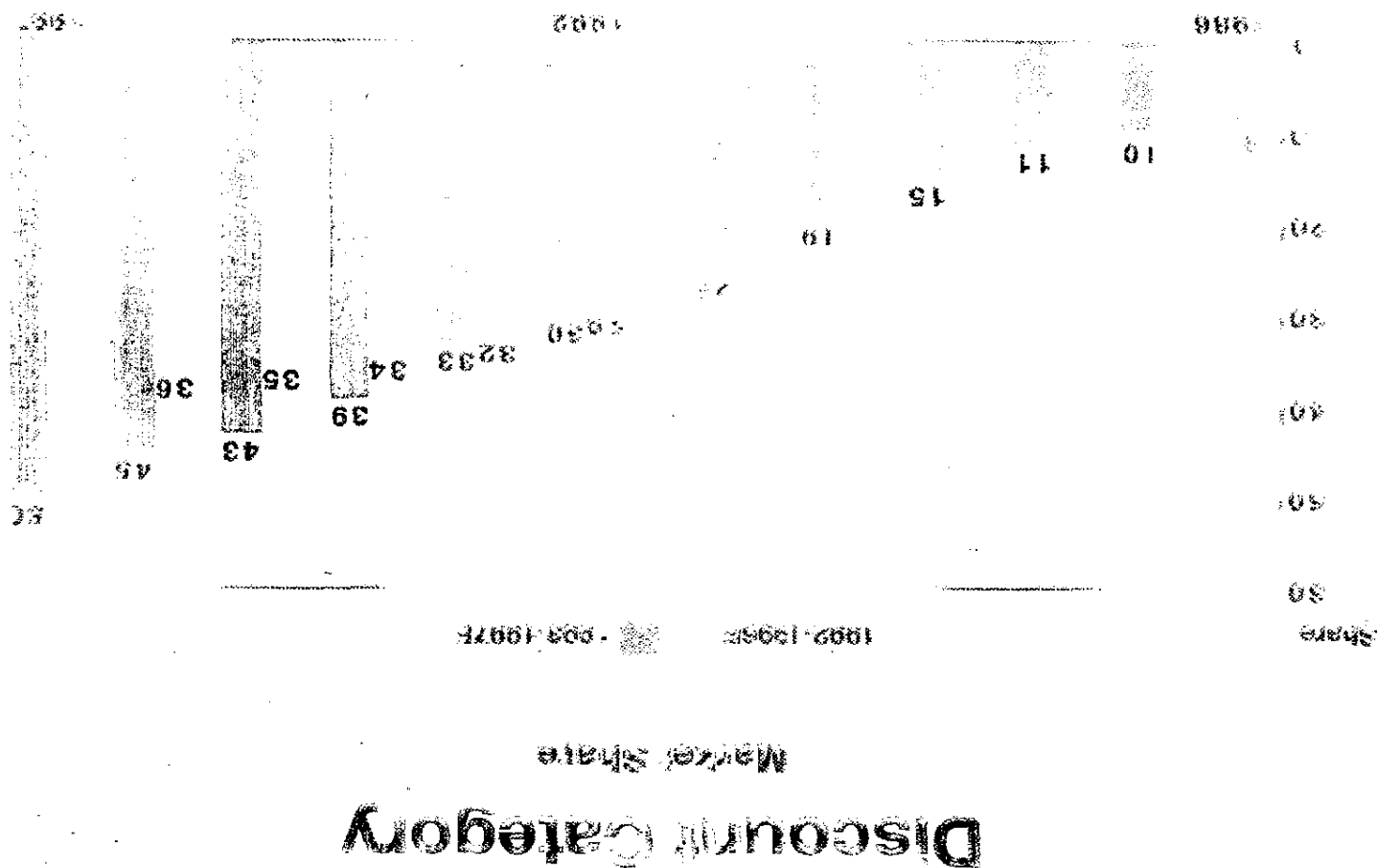
Incidence Times
\$ Value



WIC 7/14

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PM-USA STRATEGIC UPDATE

Fair Share Of Discount Growth

- **Reduce Competitive Upside (42% of Growth)**
- **Slow Momentum of American's Trademarks**
- **Protect Against Market Shift (However Branded Discount Share Loss)**
- **Use Black & Whites Strategically**

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PM-USA STRATEGIC UPDATE

Enhance Premium Trademarks

- **New Products (Medium, Ultima, B&H 100's)**
- **Share of Voice (Media Promotion)**
- **Consumer Value (New Attributes, Positioning)**
- **Share of 18-24 (Camel Up Slightly, Marlboro Weakening Slightly)**

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PM-USA STRATEGIC UPDATE

- **Consumer Pull -**
 - **Accelerate Low-End Pricing to Lessen Incentive to Switch to Discount**
- **Manufacturer Push -**
 - **Pressure Competitors' Premium Profitability to Encourage Profit Taking in Discount**

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